The Business Advocate Magazine

Nation's Business

A U.S. Chamber of Commerce Publication

August 1983 • $2.25

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*Latest information available at time of printing. Based on R. L. Polk registrations through 7/1/81.

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RAM TOUGH

Dodge Trucks


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Vol. 71, No. 8

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BY JAMES J. KILPATRICK

The Public Interest Sham

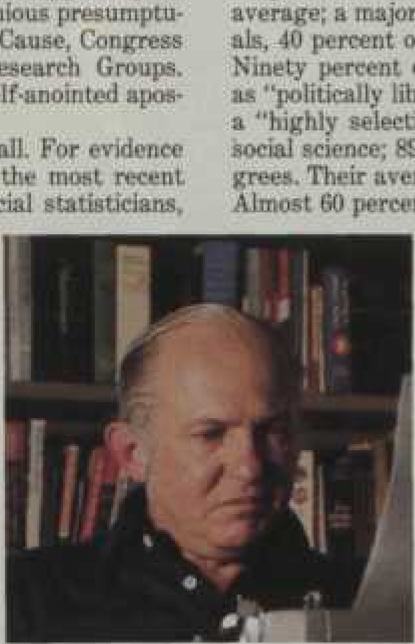
THIS IS YOUR RIDDLE for the day: When does a special interest group most resemble a special interest group? Answer: When it calls itself a public interest group. It is high time, I am suggesting, to deflate the overblown and sanctimonious presumptuousness of such outfits as Common Cause, Congress Watch and the Public Interest Research Groups. How close to the *public* are these self-anointed apostles?

The answer is, not very close at all. For evidence on this point, let me cite some of the most recent research by those indefatigable social statisticians, S. Robert Lichter and Stanley Rothman. The former is assistant professor of political science at George Washington University, the latter a professor of government at Smith College. Last year they produced an illuminating study of the "media elite," in which they discovered—to no one's surprise—that the top people in the press and the TV networks are overwhelmingly liberal in their political points of view.

Recently they turned their attention to the "public interest groups" that have multiplied so remarkably since Ralph Nader came on the scene with his *Unsafe at Any Speed* in 1965. He styled himself a "consumer advocate." That was the beginning of the pious hocus-pocus we have been hearing ever since—for it is self-evident that all 225 million of us are consumers in one way or another. The notion that anyone can truly be identified as an advocate for *the* consumer is a bogus notion if there ever was one. Nevertheless, such was the charisma of the intense and dedicated messiah that he was able to foster an entire movement. Today our state capitals, our federal forums and our college campuses are swarming with bright, young activists who profess to speak for the *public* interest.

Lichter and Rothman were curious about the leadership of these groups. They created lists of key individuals who lobby for public interest causes or practice public interest law. They restricted their field to New York and Washington, D.C., but there is no reason to suppose their findings would have been significantly altered by a geographical weighting. From the master list they pulled a random sample of 157 individuals from 74 organizations like Common Cause, Congress Watch, Consumers Union, the Environmental Defense Fund and Public Citizen. As they ran their data through a computer, a clear profile developed of those who may fairly be identified as the public interest elite.

They are overwhelmingly white (97 percent) and male (69 percent). They typically were raised in one of the big cities of the East Coast "in the comfortable circumstances of the upper middle class." Fifty-six percent recall that their family income was above average; a majority of their fathers were professionals, 40 percent of whom held postgraduate degrees. Ninety percent described their family backgrounds as "politically liberal." Almost half of them attended a "highly selective" college where they majored in social science; 89 percent now hold postgraduate degrees. Their average age is 31. They have done well: Almost 60 percent had family incomes in 1981 above $50,000.



Business does not pretend to speak for labor, or vice versa.

Ninety-five percent had a religious upbringing, but only 59 percent profess a religious affiliation today. These affiliations are "usually only nominal: Eighty-four percent say they seldom or never attend religious services." But if their religious faith is lackluster, their political faith is strong: In 1972, only 4 percent voted for Nixon; the other 96 percent went for McGovern.

Lichter and Rothman inquired into social attitudes. The public interest leaders—94 percent of them—believe that "government should redistribute income," and 80 percent believe that "government should guarantee jobs" and "government should guarantee a good standard of life." Half of them believe the United States "should move toward socialism." Their most admired figures are Ralph Nader and Edward Kennedy, who get 93 percent approval. The Sandinistas of Nicaragua win 50 percent approval. The figure for Ronald Reagan is 5.

ENOUGH. The complete findings are reported in *Public Opinion*, a publication of the American Enterprise Institute, for April/May, 1983. It is pure sham, I submit, for individuals with these backgrounds, these incomes, these lifestyles and these political and social attitudes to speak for "the purposes we all share and must pursue together." Their pose is arrogant; it is deceptive; it violates one of the concepts they profess to adore: truth in labeling.

All of us are familiar with groups identified as special or vested or selfish interests. Chambers of commerce are thus attacked all the time. So are labor unions, medical societies and teachers' associations. But at least these groups are honest about their advocacy; the chambers do not pretend to speak for labor, or labor for business. The public interest outfits pretend to speak for *everybody;* they speak in fact for themselves, and for those who voted, or would have voted, for George McGovern in 1972. □

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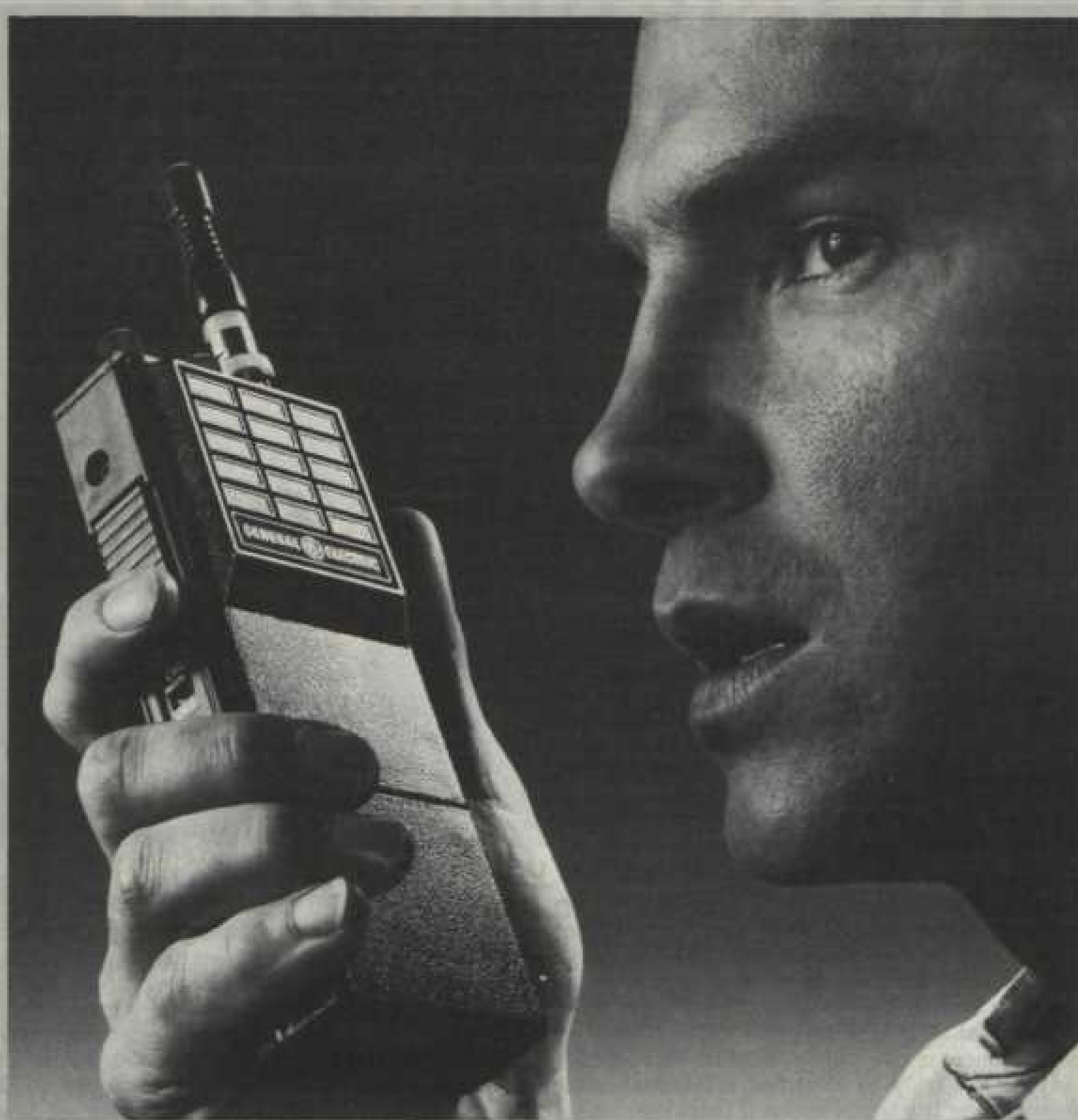

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WASHINGTON LETTER

▶ START OF NEW FISCAL YEAR is only nine weeks off, but there's little prospect for break in White House-Congress stalemate on budget policies. Via budget resolution, Congress has committed itself to higher taxes and spending than President Reagan will accept. And he's assured of sufficient support on Capitol Hill to make vetoes stick. Current outlook is for fiscal year to begin without tax hikes and with most government agencies operating under stopgap spending authority.

▶ TAX-INCREASE PROPOSALS won't even reach veto stage if Congress can't get organized on revenue legislation. Both GOP-controlled Senate and Democratic-controlled House have agreed in principle on $73 billion in higher taxes over three years, but there isn't great deal of enthusiasm for targeting specific groups that would pay higher levies. Republicans on House Ways and Means Committee may just sit this one out, letting Democrats carry tax-increase ball.

▶ BUT HOUSE DEMOCRATIC LEADERSHIP mulls counter-strategy: Accept whatever tax-increase bill Senate produces, claim it was actually a GOP tax-hike plan that was passed. Political maneuvering, tied to 1984 elections, could go on for months. Congress will be on vacation most of August, leaving just four weeks for resolving complex issues before October 1 start of fiscal year.

▶ ON SPENDING ISSUE, President's Private Sector Survey on Cost Control will be spotlighted by Reagan White House as nonpartisan source of recommendations for massive savings. Panel headed by J. Peter Grace has so far identified potential three-year savings of $340 billion through improved management practices and nontax revenue gains. About one third of 4,000 proposals from survey, which was conducted by 1,300 volunteers from private sector, will show up in Reagan budget for fiscal 1985. Plans are already under way for computer monitoring of implementation of panel's proposals.

▶ WITH MASSIVE FEDERAL DEFICITS anticipated over next several years, Treasury Department seeks to defuse claim they will inevitably drive interest rates back up. A Treasury study concludes there's "no systematic relationship between government budget deficits and interest rates or exchange rates." Note that, since 1981, interest rates have fallen substantially, while deficits have nearly doubled.

▶ REDUCE SPENDING OR RAISE TAXES? That's big question on national scene today, but there's echo in many states in regard to unemployment compensation programs. New federal law lets states defer interest on funds they have borrowed from the federal Treasury to make up deficits in jobless-pay accounts. But there is one condition: States must reduce benefits or raise taxes on employers enough to cut ensuing year's deficit by at least 25 percent. Choice has precipitated bitter political controversy, especially in states heavily in debt to Uncle Sam. But most states are making needed reforms.

▶ EPA CHIEF WILLIAM RUCKELSHAUS is seeking workable compromise on acid rain issue. He wants to take interim steps to lower sulfur and nitrogen emissions but avoid imposition of heavy costs that customers of affected industries would have to pay. EPA is in a bind on issue. Canada says much of acid rain it gets results from U.S. power plants' emissions, and

environmental groups also press hard for action. But scientists still don't understand atmospheric chemistry enough to know how much to cut which emissions. Finding answers may take another two or three years. But EPA is under pressure to have some proposals for Secretary of State George Shultz to take north when he meets his Canadian counterpart late this year.

▶ CONGRESS ISN'T LIKELY to approve soon administration proposal for creation of new Department of International Trade and Industry, but power struggle looms among top staff that would be affected. Agency would include trade functions of present Commerce Department, headed by Secretary Malcolm Baldrige, and White House office of U.S. Trade Representative, now run by William Brock. Assumption is that one would head new department. Baldrige and Brock are good friends, would not contest each other for post, but their staffs are already maneuvering for upper hand in trade agency.

▶ BALDRIGE'S NEW DEPUTY SECRETARY, former Rep. Clarence J. Brown, a good friend of Brock's, has been assigned task of ending staff warfare. Administration fears conflict is playing into hands of those who question whether Brock's office, which gives international trade a White House forum, should be absorbed by new agency.

▶ ALL SIGNS POINT TO SMOOTH TRANSITION for job training programs from strict federal control to jurisdiction of local panels representing business, labor and government. Private industry councils have until August 31 to submit recommendations on local master plans for job training, and Labor Department plans regional meetings to review work of state-level job training coordinating councils. Changeover, set for October 1, marks both end of failed Comprehensive Education and Training Act programs and start of business-backed Job Training Partnership Act.

▶ ISSUES RAISED at 20th annual Japan-U.S. Businessmen's Conference, held last month in Chicago, offer a preview of what President Reagan will be discussing in his trip to Japan in November. Priorities set by the conference included: An industry-by-industry approach to efforts to eliminate frictions, action to bring the value of the yen and dollar more into line, more attention by each country to the other's approaches to industry.

▶ INCREASED U.S.-JAPAN UNDERSTANDING is the goal of a U.S. Chamber of Commerce "productivity tour" of Japan, October 8-22. Participants will study Japanese production methods, technologies and management approaches. The Chamber, whose Japan-related activities also include staffing American section of Advisory Council on U.S.-Japan Economic Relations, says tour will help U.S. business people understand and learn from Japanese industrial accomplishments. Details available from John Volpe at U.S. Chamber Economic Policy Division, (202) 463-5620.

▶ DEBATE ON CENTRALIZED industrial policy as way to restore nation's basic industries breaks down more and more along party lines. Democrats lean toward government actions designed to help specific industries; Republicans tend to rely on market incentives that spur research and development leading to increased productivity. In GOP view, government role should be limited to fostering climate in which private sector can function most effectively. Free-market advocates fear industrial policy could lead to centralized planning.

▶ REPUBLICANS GLEEFULLY POINT OUT that several nuclear freeze advocates are in forefront of battle to win for home areas Navy designation of home port for battle group with nuclear capability. Prize is rich: 6,500 military and civilian jobs. Naval force includes refitted battleship U.S.S. *Iowa*, whose cruise missiles could carry nuclear warheads, and six support vessels. Those seeking economic advantages new Navy base would bring to constituents include Rep. Edward J. Markey (D-Mass.), author of freeze bills; Sen. Edward M. Kennedy (D-Mass.); House Speaker Thomas P. O'Neill, also a Massachusetts Democrat; and Rep. Joseph Addabbo (D-N.Y.).

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The Cost of Injuries

I was disappointed that "The Workers' Compensation Mess" [June] included rehabilitation of disabled workers as one of the factors increasing the cost of workers' compensation. If injured workers are not rehabilitated, how much does it cost to pay them for life? If an employer thinks that the cost of rehabilitation is too high, maybe he should look for a more efficient provider of services.

Every injured worker unable to return to his or her old job must be either rehabilitated or paid for years. Rehabilitation is usually the less expensive alternative. However, several things can be done to keep that cost down.

First, make the referral to a rehabilitation provider early. If a job change will be necessary, vocational counseling should start before the worker has a chance to give up on returning to work.

Second, look at what retraining or additional education will accomplish. Will it help return the worker to a job where further injuries are not as likely to happen?

Third, discuss re-employment with the rehabilitation consultant. Many firms refuse to consider re-employment even when inexpensive modifications are feasible and would allow an injured worker to return to his or her previous job.

Fourth, discuss cost with the rehabilitation provider and make recommendations. They are there to serve both the employer and the worker.

JAMES B. ADAMS
James B. Adams & Associates
Paducah, Ky.

No surprise

"The Metal Noose Grows Tighter" [Outlook, May] shows a chromium miner in Zimbabwe. I could almost say "I told you so."

U.S. sanctions against what was then Rhodesia, for so-called human rights violations, brought that government to its knees and delivered the country to a Communist dictator.

When will those in government rule with their heads rather than their hearts? Anyone could have predicted what was going to happen once sanctions were imposed.

E.B. GWIN
Bedsole & Gwin, Inc.
Fairhope, Ala.

Don't let the Russians in

Re: "Soviet Spies: Your Firm Could Be Their Next Target" [June].

The best way to curtail Soviet spying would be to stop letting the Russians into the United States. Also we should suspend all exchanges—no sports, no business, nothing.

Maybe then the Russions would understand that the United States really means business.

JOE JONES
Jones & Wehse Insurance
Rutland, Vt.

The slurry flurry

Re: "Why Railroads Are Making the Grade" [May].

Comments from railroad industry officials expressing their desire to compete with other forms of transportation struck me as ironic because for years the railroads have been fighting the development of coal slurry pipelines.

Today approximately 65 percent of our nation's coal is shipped by rail. Of that amount almost 85 percent is "captive," because no transportation alternative exists. Since the passage of the Staggers Act, rail rates for coal have increased 50 percent on average.

Coal slurry pipelines would indeed offer many captive shippers an alternative, but the railroads have steadfastly impeded their construction by refusing to grant them rights-of-way to cross railroad property or easements and by vehemently lobbying Congress to prevent passage of legislation to grant coal pipelines federal eminent domain authority.

FRED WICHLEP
Vice President, Public Affairs
Texas Eastern Corporation
Houston

IRA clarification

For Your Tax File [June] says a worker under 70½ may contribute no more than $250 a year to an Individual

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Retirement Account for a nonworking spouse. My understanding is that a total of $2,250 may be contributed each year to two separate IRAs—one for the working spouse and one for the nonworking spouse—and that neither account may receive more than $2,000 in a given year, but a sum larger than $250 may be allocated to the nonworking spouse's IRA.

RALPH E. GARNER
Vice President
T.W. Garner Food Company
Winston-Salem, N.C.

Editor's Note: *Mr. Garner is correct. A working spouse may allocate the funds put into the two IRAs so that as much as $2,000 goes into the nonworking spouse's IRA and as little as $250 goes into the worker's IRA. A minimum of $250 must go into each IRA. No more than $2,250 may go into the two of them combined.*

A mess in Massachusetts

"The Other Prevailing Wage Laws" [June] was an excellent roundup of disparate state laws, which range from the reasonable to the ridiculous. Incredibly, the Massachusetts law, which falls into the latter category, is about to be made even worse.

Though there was a recent effort to correct the archaic 1914 state prevailing wage law, the AFL-CIO, a master of special-interest politics in Massachusetts, was able to crush the measure.

Now, rather than trying to devise a more practical law, some state legislators are supporting a bill that will actually toughen penalties.

Our contention is that the extraordinarily restrictive and highly inflationary nature of the current statute is to blame for the current noncompliance. More stringent penalties are no answer.

STEPHEN P. TOCCO
Executive Director
Associated Builders and Contractors
Lexington, Mass.

Health care forum needed

Re: "Price Ceilings That Could Raise Employers' Costs" [June].

Business must insist that the health insurance underwriters provide cost-effective benefits such as increased coverage for outpatient surgery and diagnostic workups.

Most commercial insurance contracts are rated retrospectively. When the employer is informed that premiums have been exceeded by claims, the premiums are automatically adjusted upward or coverage is reduced. There is a significant factor missing from the equation, which is the profits made by the commercial underwriters through investment of the policyholders' premiums. A portion of these gains should be shared, thereby reducing proposed rate increases.

Business, labor, insurance underwriters and the health care industry must develop an open forum so these problems can be discussed and solutions agreed on.

THOMAS P. FINLEY
Executive Vice President
Arizona Physicians Review Organization
Tucson

Check the trash bin

The seriousness of employe pilferage was presented clearly and succinctly in "How To Foil Employe Crime" [July]. But the checklist ignored one frequently used method of employe theft—the refuse container. Typically, an employe removes merchandise from the building by placing it in a cardboard box, which is deposited in the trash container and retrieved later that night.

Many firms have solved the problem by installing solid waste compaction systems, which eliminate the need for the employe to go outside to dispose of refuse.

GORDON H. FENNER
President
Marathon Equipment Company
Vernon, Ala.

Why education suffers

Re: "The Crisis in Our Schools" [James J. Kilpatrick, July].

Our public school system is certainly in trouble. But the problems public educators face were not created by the tuition tax credit proposed by the Reagan administration or by the merit pay proposals suggested by Gov. Lamar Alexander of Tennessee.

Rather, the problems emanate from the inadequacy of instruction, the deficiencies in the curriculum, the lack of commitment by parents and the perpetual copout by politicians at all levels.

Is it any wonder that private schools are thriving in such an environment?

JOHN P. MCLAUGHLIN
Atlanta

James J. Kilpatrick failed to emphasize one more cause of bad education—the pressure brought by minority groups to force unqualified teachers into the school system. This same pressure is also responsible for the open enrollment programs that have reduced many first-rate city and state colleges to second-rate status.

We cannot correct the sins of past discrimination by placing teachers in jobs and students in colleges for which they are not qualified.

ARNOLD D. SCHEIN
Katonah, N.Y.

MISSION: SEA CONTROL ANTI-SUBMARINE SYST

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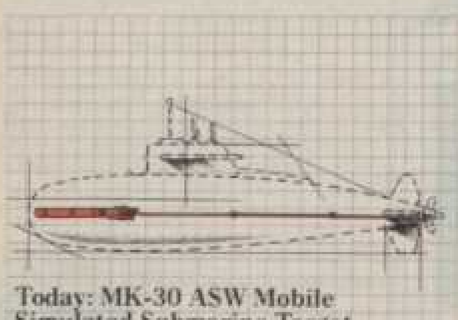

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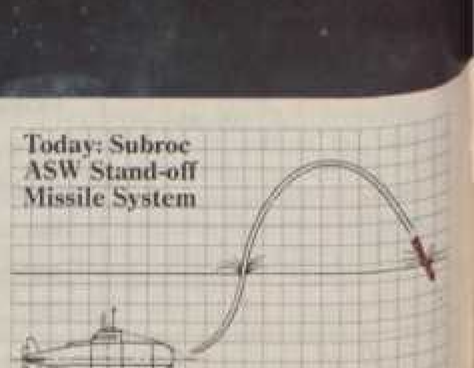

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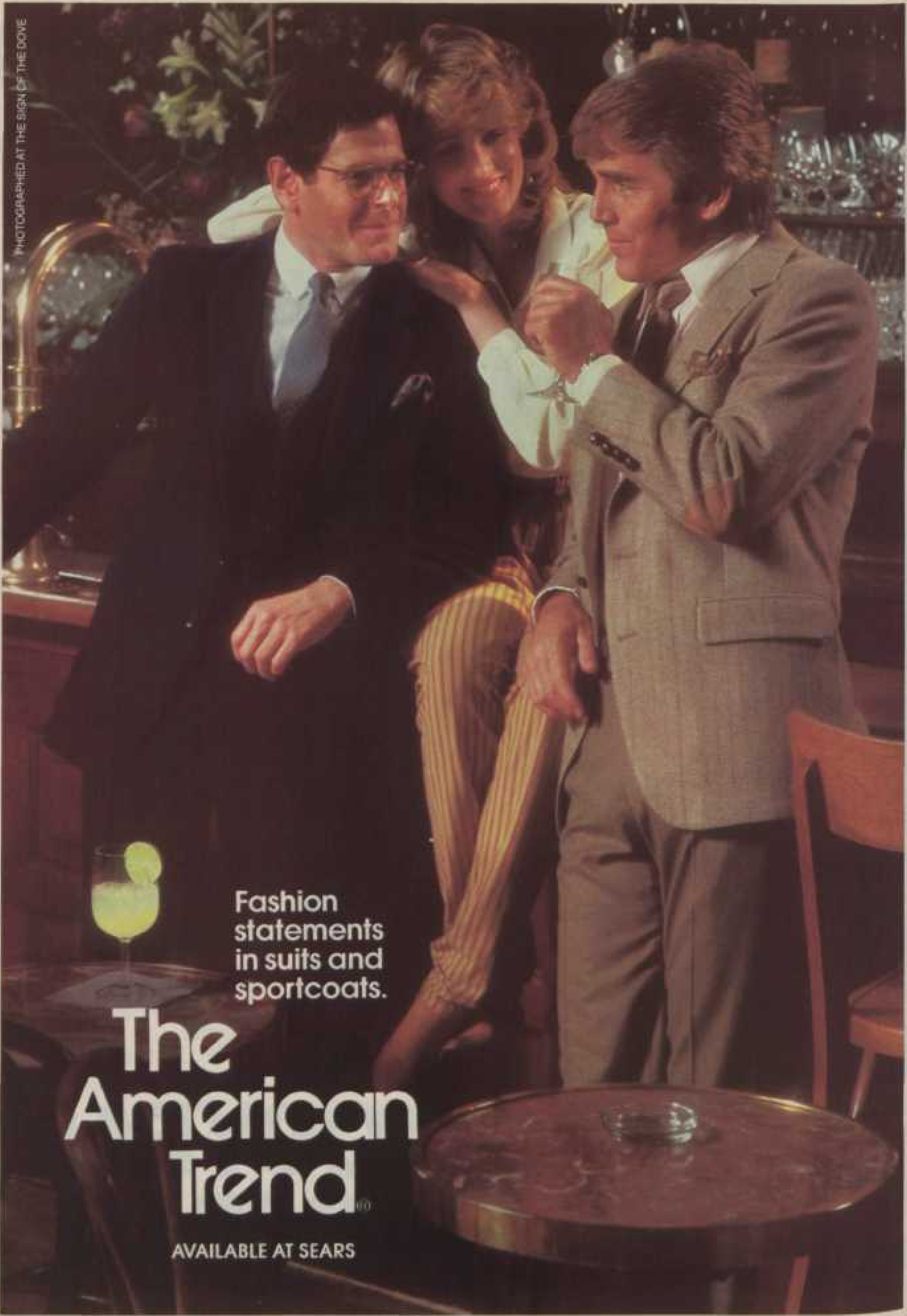
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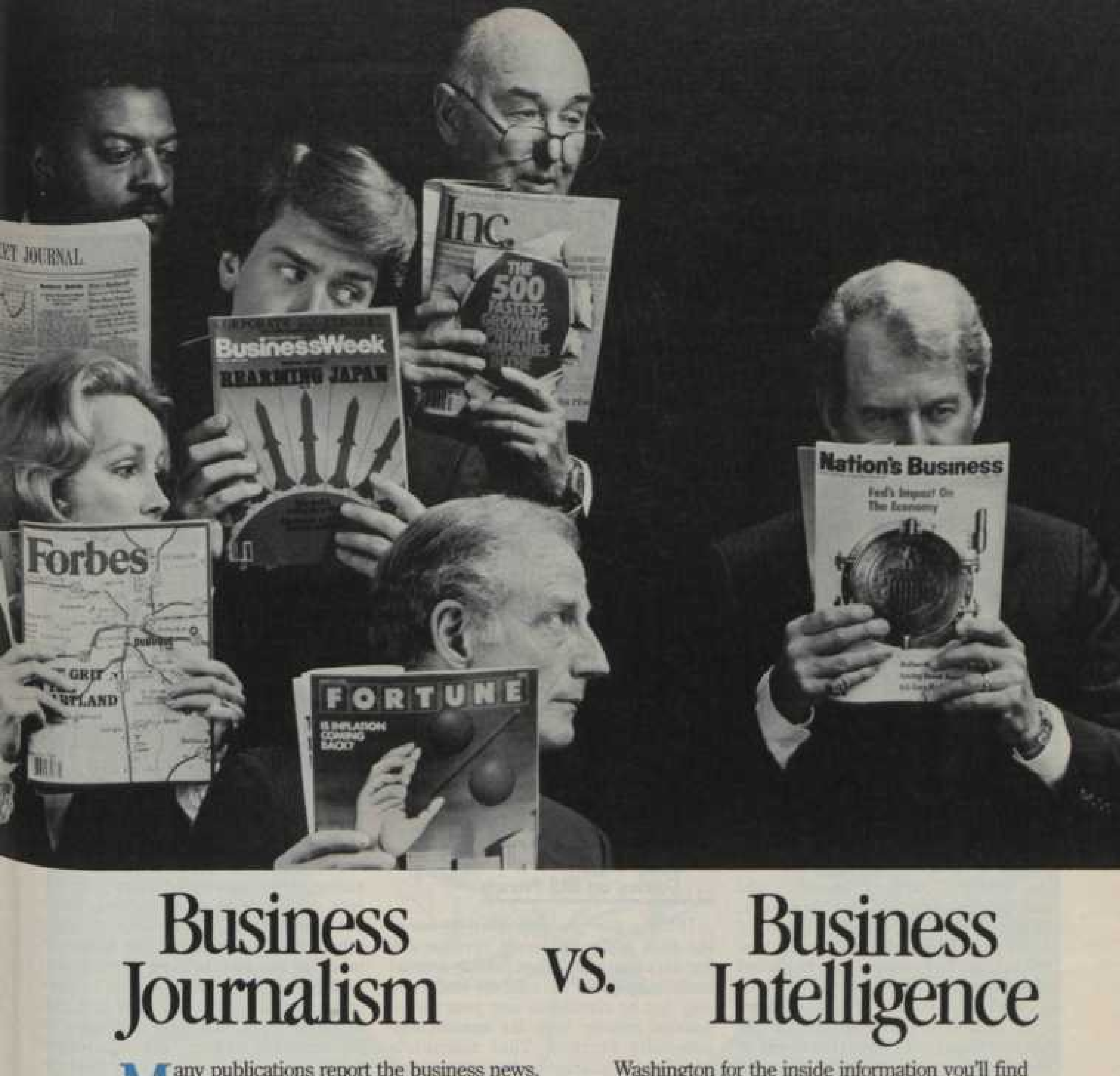
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IRS Loss Is Shareholder's Gain

By Gerald W. Padwe

For decades the Internal Revenue Service has insisted that a shareholder who controls a corporation owes tax if the corporation provides the shareholder with an interest-free loan.

The IRS position has been that there is imputed income in the loan: the amount of interest the shareholder would have paid if the loan had been obtained elsewhere, at prevailing rates.

IRS first went to court over a corporate interest-free loan in 1961; it lost. The agency lay low on litigating the issue for a dozen years, but for the past 10 years it has taken cases to court again and again.

To the relief of owners of closely held corporations—most of them small corporations—the courts have consistently seen no point in imputing interest income to the shareholder, since the shareholder would be entitled to a corresponding interest deduction.

It appeared that IRS would never win a case on the issue. The U.S. Tax Court and the U.S. courts of appeals for the first, second, fourth, fifth, sixth and ninth circuits all held against the agency.

Then, last year, the U.S. Court of Claims gave IRS its first victory. It was IRS' turn to feel relieved, but the relief did not last long. The taxpayer involved appealed the Court of Claims decision to the new Court of Appeals for the Federal Circuit (into which the Court of Claims has been incorporated) and won. This leaves IRS with seven circuit courts against it.

The last word may not have been heard, however. It would be no surprise if IRS were now to ask Congress to accomplish through legislation what could not be accomplished by litigation.

The "Rule of 78s"...

For many multipayment consumer loans—particularly on big-ticket items like automobiles and boats—it is not uncommon to find that, in the event of repayment before maturity, interest due will be computed under the "Rule of 78s." This formula can be applied to a loan over any number of periods. It allocates the interest to each installment period in proportion to the sum of all such periods in the loan.

Thus, for a one-year loan payable monthly, each month's interest would be based on the sum of the months' digits. The sum of 1 through 12 is 78 (hence, Rule of 78s), and interest for the first month would be 12/78 of total interest on the loan, for the second month 11/78 and so on.

Because the Rule of 78s "front-loads" interest, the rule has attracted attention from a number of promoters of real estate tax shelters, among others. Seizing on a sentence in a 1972 IRS published ruling, they structured certain real estate investments with loan instruments calling for interest allocation based on the Rule of 78s. This entitled limited-partner investors to accelerated interest deductions in the investment's early years.

... Draws an IRS Frown

IRS has now clamped down on use of the Rule of 78s. A recent revenue ruling says that, for either cash or accrual basis taxpayers, an interest deduction may not be claimed in any year for an amount greater than the amount economically accrued. That amount is equal to the interest on the outstanding balance that would be due during the year at the nominal rate.

If, for example, the loan involved was for \$200,000 at 12 percent over a 10-year term, the amount of interest that would economically accrue during the first year of the loan would be \$24,000—12 percent of the principal amount. Under the Rule of 78s, the amount of interest in the first year—and so the deduction—would be much larger. Thus, Rule of 78s shelters will become much more difficult to promote, and those who have already invested in such partnerships will likely find, if they are audited, that IRS is unsympathetic.

One exception has been made to the new ruling: When the note is for no more than five years, contains level payment provisions and has no balloon payment of principal at termination, the Rule of 78s may still be used. Thus the average automobile loan will not be affected by the ruling.

Excess Inventory

In 1979, in the *Thor Power Tool* case, the Supreme Court settled a long-standing controversy between taxpayers and IRS by upholding IRS disallowance of writedowns on so-called excess inventory—unused, top quality inventory in excess of sales expected in the near future. Such excess can easily arise when a manufacturer must maintain a supply of spare parts for older models of machines no longer being sold. The manufacturer is reluctant to scrap the spare parts not needed to meet demand forecast for the next several years, because the cost of storing the excess parts is relatively slight and there is always a chance that sales may be higher than predicted.

In an effort to circumvent the *Thor* ruling, some taxpayers have sold excess inventory to other entities. Sales are generally at scrap value or some other price below cost, and a loss is taken on the sale. In most of the transactions, the seller has retained various strings on the property, so that it can be repurchased whenever necessary to fill customer orders. The repurchase price is generally set so as to compensate the buyer for holding the goods.

Because of the perceived potential for abuse, IRS recently issued a revenue ruling disallowing a loss on such sales when the seller is deemed to have retained substantial rights of ownership. Among criteria that IRS says will indicate a true sale was not intended:

- The seller retains buy-back authority.
- A buy-back price or formula is predetermined.
- The purchaser does not have the unrestricted right to sell or scrap the inventory.
- The transaction has the economic characteristics of a financing arrangement. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

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Is a Conference Coming in '84?

A new White House meeting devoted to small business—the first was held in 1980—could draw several thousand business people as delegates and observers.

Although it may not be called the White House Conference on Small Business, there is a growing likelihood that some gathering of that kind will be held before the 1984 presidential election.

Recently 54 senators sent a letter to President Reagan requesting that a conference be called this year. One of the signers, Sen. Alfonse D'Amato (R-N.Y.), says, "Today, as we enter a period of economic recovery, every effort must be made to ensure small business is a part of the recovery process."

Small Business Administration head James C. Sanders favors a conference. During a recent appearance on BizNet, the nationwide television network of the U.S. Chamber of Commerce, he predicted that some sort of conference would be held, "possibly next year."

Sanders also warned against complacency: "Republicans have to guard against the thought that, since 85 percent of small business people are Republicans, you can safely ignore them."

The first White House Conference on Small Business, which was held in 1980, was attended by more than 1,600 delegates and 3,600 observers.

Minnesota Tests A Loan Program

A new secondary market for Small Business Administration-guaranteed loans is being created in Minnesota and could expand to other states in the near future.

Under the "Minnesota Plan," a demonstration program set up by the SBA and the Minnesota Small Business Finance Agency has been capitalized through a $20 million bond issue. The bonds have been purchased by the Minnesota State Board of Investment.

The capital will be used to buy up to $20 million in SBA-guaranteed loans with a fixed 13.2 percent rate for terms ranging from 7 to 20 years. When the finance agency buys the loans from banks, capital will be freed for further loans by the banks.

As with any SBA-guaranteed loan, the small business person who wishes to participate in the Minnesota Plan must go to a local bank. The SBA will guarantee 90 percent of each loan, up to a maximum of $500,000, with the bank liable for the remaining 10 percent in the event of default. The finance agency will buy the SBA-guaranteed portion of each loan.

Loans under the Minnesota Plan can be used to finance land, buildings, machinery and equipment purchases and improvements. Working capital and refinancing loans will not be available through the plan. Loans will be serviced by the lending banks, with the servicing charge included in the interest rate.

M. Jean Laubach, executive director of the finance agency, says, "We feel that the fixed-rate and long-term nature of these loans makes them very competitive. Small business owners are looking for this kind of interest rate predictability."

The plan will probably be extended to other states if it proves successful in Minnesota.

The GOP Will Hear From Small Business

Smarting under criticism for not having formal input from small business, the Republican National Committee has decided to set up a chairman's small business advisory committee.

The size and composition of the committee are still being decided, but indications are that RNC Chairman Frank Fahrenkopf will select some members from the Directors Club, a 500-member RNC fund-raising group, and others from active, established business associations already working on small business issues. Members will not be required to be contributors to the RNC.

An RNC press spokesman says the advisory group, similar to one established last year by the Democratic National Committee, will devote itself primarily—about 70 percent—to reporting on issues.

A small business group within the Directors Club will also provide input on issues but will devote itself primarily to fund raising.

Fahrenkopf says that the chairman's small business advisory committee will define the problems and concerns of the small business community. He expects the group to produce recommendations for legislation and regulatory relief.

Like its Democratic counterpart, the Republican small business group is expected to play a prominent part in the drafting of the 1984 platform.

Fahrenkopf believes the new committee will serve as a conduit for small business people throughout the nation who want to communicate their problems and views to Washington. He says his committee will pass on such information to appropriate officials in the Reagan administration.

The Democrats are already hearing from the Democratic Small Business Council, composed of some 100 men and women who operate small enterprises throughout the nation.

Bernard Featherman, chairman of Western Steel Company in Philadelphia, heads the council, which was created by the Democratic National Committee in 1982. He says that the concerns of small business should be a nonpartisan issue and should be addressed by both of the major parties.

Mexico Will Import More U.S. Food

Drought and continued financial woes will probably double Mexico's demand for U.S. food imports this year, with grain and oilseeds leading a long list of products whose total value could exceed $2 billion. That appraisal comes from John Montel, U.S. agricultural counselor in Mexico City.

The Mexican dream of agricultural self-sufficiency, says Montel, is vanishing, at least for the foreseeable future. The water-short nation—the combined flow of all of its rivers does not equal the flow of the Mississippi River—is perilously dependent on rainfall, an unpredictable variable in planning.

Further, with the value of its oil exports diminished, Mexico will have to borrow most of the money to pay for American imports from the U.S. Commodity Credit Corporation.

Last December Mexico abandoned its cherished goal of becoming self-sufficient at least in corn and beans—its most important foods—and it intends to rely more heavily than before on imports of higher-quality foodstuffs. Mexico will be buying dramatically larger amounts of American corn, sorghum, wheat, soybeans, sunflower seed, cottonseed, crude vegetable oil, soybean meal, tallow, dry milk and eggs.

Tough Trade Talk With the Japanese

PHOTO: H. ARMSTRONG ROBERTS

Matthew Perry's 1854 landing at Yokohama inaugurated American trade with Japan.

Commodore Matthew Perry, who opened Japan to U.S. trade in 1854, could never have imagined that one day the Japanese would become American farmers' biggest foreign customer—or that it would be so tough to sell them hamburgers and orange juice.

It will take more than Perry's gracious manners to persuade the Japanese to buy more than the $5.5 billion in food and fiber they imported in 1982. The Japanese already purchase huge amounts of grains, soybeans and cotton, but the United States is pushing hard for removal of Japan's strict quotas on beef and citrus products.

Trade talks began in earnest last October, and U.S. officials report strong resistance to their attempts to lower quota barriers.

In recent years, American protests against Japanese trade impediments brought some duty reductions and the relaxation of other controls on American agricultural products like cigarettes, chocolate and cookies, but U.S. officials were disappointed overall.

An agreement governing U.S.-Japanese trade will expire March 31, 1984.

The Plastic Peril: Bogus Credit Cards

Altered and counterfeit credit cards last year resulted in worldwide industry losses of $50 million, and a crackdown is in the works.

Eight members of the House Judiciary Committee, led by Rep. Hamilton Fish (R-N.Y.), are sponsoring legislation that would make credit card counterfeiting a federal crime and impose stiffer federal penalties for possession of counterfeit or altered cards and possession of equipment used in producing counterfeit cards.

Is that credit card genuine? Losses from counterfeit cards have risen sharply.

PHOTO: GARY KIEFFER

Laws against credit card misuse already exist, but, says William Neumann, vice president and head of security for Visa, a major credit card issuer, "our experience with card fraud investigations tells us that putting such provisions in the U.S. criminal code will enhance enforcement efforts."

Of the major credit card fraud categories—stolen cards, lost cards, cards not received in the mail and counterfeit cards—it is the latter category that has shown the most dramatic increase in offenses.

Counterfeiting losses involving Visa cards totaled $11 million in 1981–82, says a Visa spokesman—15 times greater than the previous year.

Tax-Exempt Bonds Attract Enemies

The explosive growth of tax-exempt industrial development bonds has some members of Congress bent on curtailing the bonds' attractiveness to the private sector as a financing vehicle.

But IDBs also have strong supporters; for example, the U.S. Chamber of Commerce backs the bonds as "useful and valuable tools to encourage community development, economic revitalization and private sector job creation."

The bonds, which are issued by state and local governments to finance such private activities as pollution control at below-market rates, "have bred like rabbits," claims Rep. J.J. Pickle (D-Texas). In 1975 only $5 billion worth of IDBs was issued; last year's volume was $41 billion.

Pickle has introduced a bill to require straight-line depreciation instead of accelerated cost recovery for all IDB-financed activities except low- and moderate-income rental housing. The bill would also place additional limitations on small-issue ($10 million or less) IDBs.

Federal revenue losses attributable to IDBs are projected at $13 billion annually over the next five years. John E. Chapoton, assistant Treasury secretary for tax policy, would like to see Congress "impose state volume limitations on all private-purpose tax-exempt bonds."

The Treasury Department also wants the tax exemption ended for IDBs backed by federal deposit insurance.

Who Should Set Lawmakers' Pay?

Howard Baker: He wants an outside panel to decide what Congress should be paid.

The Senate's 49 to 47 vote in June to give itself a 15 percent pay boost and to delay putting a cap on the amount of each senator's outside income has accelerated the controversy over Capitol Hill salaries.

As a result, look for the Senate before the end of the year to debate and pass a proposal, introduced by Sen. Russell B. Long (D-La.), to amend the Constitution so that Congress no longer sets its own salaries. Instead, an independent commission would fix pay levels.

The key backer of Long's proposal is Majority Leader Howard H. Baker, Jr. (R-Tenn.). Baker plans to retire from the Senate at the close of the 98th Congress next year, and he hopes both houses pass the joint resolution before he leaves.

Baker is urging Senate Judiciary Committee Chairman Strom Thurmond (R-S.C.) to rush the Long proposal to the Senate floor for final action this fall. But that would be only the beginning. It must be approved by two-thirds votes in both houses of Congress, and then three fourths of the states must ratify it, before it becomes a part of the Constitution.

Although Baker was among those voting for the $9,100 boost in pay that puts senators at the same salary level ($69,800 a year) as House members, he says he would prefer that senators be paid less money and that the Senate be in session only half of each year.

Baker says members of Congress have become "little more than federal bureaucrats" who have lost touch with the people back home. He complains that he and his colleagues produce overly complicated bills "that sound like we do not know what we are supposed to be doing, and we do not."

A Conservative Tilt By GOP Freshman

Analysts at the Fund for a Conservative Majority, a political action group headquartered near the Capitol, report that the 23 Republican freshman members of the House appear to be "consistently more conservative" than their more veteran GOP colleagues.

Fund Chairman Robert C. Heckman says the analysis was based on votes on five key issues in the 98th Congress. The 23 freshmen voted in agreement with the Fund's conservative positions 63 percent of the time; the rest of the House Republicans supported the Fund only 57 percent of the time.

"This analysis," says Heckman, "shows that the GOP freshman class is significantly more conservative than many political analysts and members of the press consider them to be."

Included in the analysis were votes on the nuclear freeze resolution and on three bills that were labeled "budget-busters" by the Fund.

The "Shootout" Over Control of Exports

An aide to Sen. Jake Garn (R-Utah) predicts a "real shootout" next month on Capitol Hill when House and Senate conferees try to settle differences over extending the crucial Export Administration Act. As things stand, that law will expire September 30.

American business, along with U.S. foreign policy and national security, will be affected as members of the House Foreign Affairs Committee and the Senate Banking Committee, chaired by Garn, try to reconcile differences in the versions of the legislation passed by the two houses.

A key issue: Who should control the licensing of U.S. exports?

House conferees will push to continue licensing authority within the Commerce Department. Garn, however, is determined to shift that authority into a proposed independent Office of Strategic Trade.

The danger business sees in such a change is that export controls might then be used as a weapon in international politics, with sales of nonmilitary, high-tech goods to Communist nations being cut off.

Richard Kaufman, deputy director of the Joint Congressional Economic Committee, says that "U.S. firms worry that, as export controls clamp down on products where they have competitive advantages, Eastern markets are handed over to foreign competitors."

Heavier Traffic In The Pacific Basin

The coming boom in U.S. foreign trade will occur in the Pacific basin, international forecasters say. Burton Levin, U.S. consul general in Hong Kong, predicts that "if the present growth rate continues, Thailand, Malaysia, Singapore, Indonesia and the Philippines will be America's largest [combined] trading partners by the end of the decade."

Citibank Senior Vice President Kent Price, also stationed in Hong Kong, says the British crown colony has attracted more U.S. investment than any country in the Western Pacific region, except for Japan and Australia.

U.S. investment in Hong Kong now represents 42 percent of all foreign investment there, Price says, followed by the Japanese with 23 percent and the British with 8 percent.

But Britain's 99-year lease on most of the colony runs out in 1997, and China is expected to resume control of the leased portions at that time.

A push is expected in Congress for the United States to create its own "Hong Kong" on Guam. That island is strategically located in the Western Pacific, but unlike Hong Kong it so far lacks the special tax and investment sweeteners necessary to attract large-scale international trade.

Hong Kong: Will its return to Chinese rule open the way for development on Guam?

ECONOMY

Growth Dampens Ardor for Tax Hikes

Faster economic growth is becalming the tax-increase movement on Capitol Hill. Ordered through the congressional budget resolution to raise taxes $73 billion over the next three years, the tax-writing committees have not shown enthusiasm for curbing the recovery.

According to Treasury estimates, higher growth will add more revenues in 1984 and 1985—about $30 billion—than would the higher taxes envisioned by the budget resolution. The House Ways and Means Committee is considering new limits on employes' fringe benefits and health insurance deductions and a freeze on a dozen personal tax cuts approved in 1981.

A group of Republican senators say they will oppose any tax increases. In a pep talk to the White House staff, President Reagan said he is against any new taxes this year or next.

Even pessimists are surprised at the strength of the recovery. At midyear the administration revised upward to 5.5 percent its estimate of growth between the fourth quarter of 1982 and the fourth quarter of 1983.

Treasury insiders say "chances are very good" that the final figure will be close to 6 percent for the period. That is twice January's forecast. Treasury Secretary Donald Regan says the growth rate probably peaked in the second quarter and could fall slightly in the third and fourth quarters.

The Bright Side Of Rising Rates

Are rising interest rates an early signal that inflation will soon be on the rebound? Definitely not, says the Treasury Department's economic policy chief, Manuel H. Johnson: "Inflationary expectations may be squeezed out even further . . . by a temporary rise in short-term rates."

Reining in runaway growth in the money supply—already above the targeted increase for all of 1983—should calm the nerves of jittery credit markets. Wall Street is anxious for fresh signs that the Federal Reserve will avoid a repetition of the roller coaster policies that produced ever worsening bouts of inflation and recession for over a decade and a half.

Short-term interest rates will rise, Johnson cautions, until a new balance between supply and demand for credit is established.

Treasury Secretary Donald T. Regan predicts interest rates will be lower at the end of the year than they were at midyear.

As the Fed goes back to tested formulas for controlling inflation, it could be a little less secretive, Johnson complains. "It would be useful if they shared their information."

PHOTO: DENNIS BRACK—BLACK STAR

Treasury Secretary Donald Regan sees interest rates down by the end of 1983.

ENERGY

The Need To Build More Power Plants

A government report forecasts an "ominous" drag on American productivity over the next two decades unless the electric utility industry undertakes a $1 trillion plant expansion.

With electricity demand predicted to grow more rapidly than the gross national product, a far larger generating capacity will be needed, the report warns. It was written by a high-level multiagency task force headed by Vice President George Bush.

"Failure to pursue economic investments in new supply will have a substantial adverse impact on electricity prices while, at the same time, increasing oil import levels and serving as a damper on economic growth," the report says. There have been over 200 delays or cancellations of new coal-fired or nuclear facilities over the past three years, the report notes. The slow pace of conversion from costly oil- and gas-burning plants to coal and nuclear power over that period will, it says, add $20 billion to consumer electric rates by the end of the century.

Fears that raising the required $1 trillion will drain American financial markets are unfounded, the report says, since it is unlikely that electric utilities will require a greater proportion of domestic private investment than they have historically needed.

With its present resources, the report concludes, there is no guarantee that the industry will be able "to continue to provide adequate future supplies at minimum cost."

The delays of power plant construction threaten growth, a panel says.

PHOTO: GARY KIEFFER

"The report," says Edison Electric Institute spokesman Kirk Willison, "points out some very, very important things about our future needs. We recognize the challenges we face."

Is It Time To End Federal Energy R&D?

In the future the federal government should leave energy research to business. That is the recommendation of the Heritage Foundation, a Washington-based think tank.

"Transferring energy research back to the private sector would serve to depoliticize energy research, stabilize funding and ensure that research priorities are appropriate to the real needs of the energy market," a recent Heritage report says.

Citing the billions of dollars the government has spent on ultimately unsuccessful research efforts, the report asks, "Could it be that the problem is not with the specific research projects themselves, but with the whole notion of federal energy research?"

Heritage calls for a private energy research trust fund, to which companies would contribute in direct proportion to their use of the fruits of the research funded by the trust fund.

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The Ogallala, the world's largest aquifer, stretches beneath eight states. Once it seemed inexhaustible—it held 650 trillion gallons of fresh water—but now the water table is dropping as the Ogallala is drained by 200,000 wells.

MAP: JAIME QUINTERO

PHOTO: DAVID MENDELSOHN

The Approaching Water-Supply Crisis

Business will be doubly affected by looming water shortages: Through the overall economic impact and through tax costs of solutions.

By Henry Eason

OVER THE PAST 30 years, the United States has doubled its consumption of water to a staggering 450 billion gallons a day—2,000 gallons for every American.

The experts expect those numbers to keep increasing, precipitating a resource crisis that could have as serious an impact on the economy as did the energy crisis a decade ago.

"The crisis of the 1990s on the domestic side will be lack of water for domestic use," says Interior Secretary James G. Watt. He warns: "All efforts to promote growth and employment, to increase agricultural prosperity, to protect the environment and to revive our cities will mean nothing, unless we can meet society's need for water."

Other voices are sounding similar themes.

Rep. Robert Roe (D-N.J.), chairman of the House Water Resources Subcommittee, says of water shortages: "People say it is a crisis waiting to happen. It is a crisis now."

The American Farm Bureau Federation predicts that "a number of areas in the United States could face critical water shortages in the years ahead." A report by the federal Water Resources Council lists problems of inadequate surface water supply in all 21 of the nation's water resources regions. And, the report says, 38 of 106 subregions are now experiencing moderate to extensive groundwater overdrafting—withdrawals at a faster rate than replenishment.

One of the most prominent examples of a critical water-supply situation centers on the Ogallala, the largest aquifer in the world. It stretches for 800 miles beneath South Dakota, Colorado, Kansas, Wyoming, Oklahoma, Nebraska, New Mexico and Texas (see map) and once contained more than 650 trillion gallons of fresh water.

Sen. Pete Domenici (R.-N.M.), who has been urging adoption of a comprehensive national water policy, points out that the Ogallala is now serving as

Agriculture and related industries are the heaviest users of water in the United States, taking 81 percent of all of the water drawn out for human use. This irrigation project in Arizona enables cultivation of wheat in arid regions.

the water supply for 180 counties and helping to slake the thirst of 40 percent of our nation's beef cattle. To meet this need, it is being depleted by 14 million acre-feet of water yearly. (An acre-foot is the amount of water needed to cover one acre to a depth of one foot.)

SOME 200,000 wells now draw water from the Ogallala, and its water table has dropped 10 to 15 feet over more than 60,000 square miles. Already, abandoned farmland in northern Texas is littered with rusting irrigation pipes that once carried water from the aquifer.

Heavy withdrawal in Florida has so reduced groundwater levels in some places that seawater contamination of fresh water is a real threat. The drop in that state's water table has spawned sinkholes into which automobiles and even buildings have tumbled.

In the Houston-Galveston area, land has been sinking as a result of water withdrawals to such an extent that roads, railroad tracks and bridges have broken up. In the Phoenix-Tucson area, subsidence has created a trench 120 miles long and, in some places, dozens of feet deep. Seasonal droughts regularly tax water systems throughout the country.

Conditions are critical in some places and will become so in other areas.

Does this mean that the nation faces a natural catastrophe that will leave much of it an arid desert? Not at all. It is a matter of crisis resolution, the experts say, and, like the energy threat, the water crisis can be managed and resolved if the nation is willing to commit the necessary resources.

There are actually three aspects to the problem of assuring water supplies over the long term: availability, adequacy of storage and distribution facilities, and maintenance of water quality. All can be dealt with in varying degrees through supply projects, proper management and antipollution efforts. In each case, however, the costs could be well beyond those contemplated in the past for what was long considered one of the most plentiful, least expensive commodities.

The water crisis, actual in some places and threatened elsewhere, will thus have a double impact on business: To the extent demand exceeds supply, it will affect operations, particularly for agribusiness, and the cost of rehabilitating older water-supply systems and projects and building new ones will be reflected in taxes at all levels of government.

Much of the availability problem stems from the misalignment of water supplies and people. More than 75 percent of the population and most manufacturing activity are concentrated on less than 2 percent of the land, and bringing water to those sections grows increasingly expensive.

Industry and agriculture are by far the two largest water-consuming sectors of the economy, accounting for more than 90 percent of the daily total. Within those sectors, power generation and irrigation are the major end uses. Public water supplies represent most of the balance of consumption.

Among regions, water-use patterns vary widely, as shown by the U.S. Geological Survey's recent report, which covers 1980:

- Although 90 percent of all irrigation water is drawn in the western United States, 90 percent of all water for industrial purposes is used in the East.
- Per capita use ranged from 19,000 gallons a day in Idaho, a thinly populated state with large tracts of irrigated land, to 180 gallons per day in Rhode Island, the smallest and one of the most densely populated of the states.
- Three of the fastest-growing states—California, Florida, Texas—are the largest water users, in that order. Those states, combined with Idaho, withdrew 25 percent of the water used in the United States in 1980.

Agricultural specialists point out that water shortages in the nation's farmlands could have the same impact as an unending drought, bringing food shortages and sharply increased food prices. Other impacts would include a decline in agricultural exports, further worsening the nation's world trade position, and a socially disruptive exodus from farms to the cities.

In addition, a decline in the agricultural sector would ripple through the rest of the economy, affecting the entire chain of food distribution and production.

The cost of dealing with the availability problem is seen in the Central Arizona Project, which will carry Colorado River water to that southwestern state. The $2 billion project will include 400 miles of aqueducts and dams.

In other areas the problem is one of supply facilities—the complex of pumps, pipes, purification plants, storage areas and other facilities through which water moves from its sources to the farms, factories, offices and homes of users.

CITIES IN THE NORTHEAST will face a water crisis, says Secretary Watt, "because their water systems are rusting and rotting out."

In recent years, Boston has pumped 40 percent more water than it can account for in its customer billings, and leakage is considered a major cause of the problem. In New York City, two 170-foot pipes carry 60 percent more water than they were designed to handle, but the pipes have not been inspected since they were built decades ago. Officials fear that the added load may have damaged them.

The U.S. Army Corps of Engineers said after a study: "The civil works infrastructure for water is sorely distressed by the ravages of time, poorly controlled physical abuse, questionable construction and simple decay from age."

Repair costs are stated in astronomical estimates. The Associated General Contractors of America, a Washington-based industry organization, puts a price tag of $138.6 billion on reconstruction of water-supply facili-

PHOTO: RICK FRIEDMAN—BLACK STAR

Many older Eastern cities are losing water from leaky pipes. In Boston, 40 percent of the water never reaches customers.

PHOTO: ORLANDO SENTINEL STAR—BLACK STAR

As water is pumped out in booming urban areas like Winterhaven, Fla., the ground collapses in property-damaging sinkholes.

ties. Taking into account the wastewater treatment facilities needed to deal with the quality aspect of the water-supply equation adds $507 billion to the estimates.

The water-supply and treatment needs are, in turn, part of an overall problem of deterioration in the public works that are known collectively as the nation's infrastructure.

More than 30 bills dealing with various aspects of infrastructure needs have been introduced in Congress, and dozens more will be offered over the next few years.

Most represent extension of the user-fee principle to financing of the massive projects that would be undertaken under an infrastructure-rebuilding program. Organizations representing the water-supply and waste-treatment industries are in the preliminary stages of drafting proposals, for action at all levels of government, under which those facilities would be shifted to a public-utility basis. Consumers would pay for services in amounts needed to finance both capital and operating costs.

CONSERVATION is another aspect of proper water management needed to avert shortages. The General Accounting Office states:

"Traditionally, our nation solved water supply problems either by building new projects, thus creating additional holding and delivery capacity, or developing technologies whereby water that was formerly unusable can be used. However, these approaches are very costly and time-consuming. An alternative solution is to reduce the demand on present supplies, principally through conservation."

The user-fee principle is closely tied to the conservation goal. Consumers who learn, from their bills, the actual market value of water will soon adopt conservation techniques, just as motorists did when the price of gasoline quadrupled during the 1970s, the experts in the water-supply field predict.

Increased recycling of water by industry and development of more agricultural processes that reduce the need for large amounts of water will be among the important conservation steps.

As indicated by the estimated cost of wastewater treatment facilities, pollution remains a major obstacle to providing adequate water supplies. Rep. Norman Lent (R-N.Y.), noting that his home area of Long Island was among the first to recognize problems of pollution of groundwater supplies, has called for establishment of a coordinated national effort "to determine what is needed to prevent further deterioration of our groundwater supplies."

On Long Island, he says, underground sources of water were contaminated by toxic wastes, and there has been "an increasing frequency of similar incidents" elsewhere in the country.

"To my way of thinking," he says, "only a coordinated national approach can provide the comprehensive framework needed to deal with this national problem."

Antipollution efforts have been proceeding in other areas, meanwhile, and the federal government has spent more than $30 billion over the last decade on clean-water projects. Industry has also spent billions on its own and has been far ahead of government in dealing with water pollution.

Like Lent, other officials and private citizens believe that the nation needs a more centralized water policy based in Washington, but the Reagan administration believes that regional, state and local authorities are better equipped to identify and deal with problems at their respective levels.

Secretary Watt declares: "We already have a [national] policy." And that policy, he says, "is not to dictate water policy from Washington."

THOSE WHO QUESTION the seriousness of the water shortage note that the rate of increase in use actually slowed during the 1970s—dropping from 12 percent in the first half of the decade to 8 percent in the second half. And they cite the Geological Survey's report that streamflow in the 48 continental United States is 1.2 trillion gallons a day, about 2½ times usage.

But, in response, the Geological Survey cautions against reading too much into those figures. Among reasons for the lower rate of increase in use from 1975 to 1980, it says, were a decline in the economy and, ironically, regional droughts that cut down use.

And, though the overall ratio of supply to demand encourages optimism, the Survey says: "This apparently favorable balance of water supply nationwide ... may bear little resemblance to the actual supply-demand situation in a local area or for specific users who face water-supply shortages. ... Thus, some regions already must cope with water shortages of varying intensities and must face continued 'deficit spending' in their water budgets—using more water each year than is naturally supplied."

The Survey's report concludes: "Our water resources must be carefully managed, protected and conserved to assure adequate supplies of good quality for future generations." □

Making The Most Of Less Water

Businesses, farms and homes can cut water use sharply through a variety of techniques.

PHOTO: AMERICAN FARM BUREAU FEDERATION

A GALLON SAVED is worth a gallon produced—a lesson, learned from the energy crisis, that many hope will keep the nation's water supplies from drying up.

Some water users have already seen the bottoms of their wells. Faced with the escalating cost of capturing and treating water, many communities, farms and businesses are gradually making conservation their first line of defense against shortages.

A new discipline of water conservation is developing. Its many water-saving techniques apply to all consumers, but since there are numerous uses of water, most companies and individuals should seek tailor-made advice from their water companies and from local, state and federal agencies that are concerned with water conservation.

Farms are the largest water users, and it is in the agricultural sector that the most impressive gains can be made. A saving of as little as 7 percent in the use of water for irrigation would equal all the water used in American homes.

Some farmers find a shift from wasteful sprinkler irrigation systems to drip irrigation economically rewarding. Drip irrigation can save much of the water that is lost through evaporation and inefficient leaf soaking in sprinkler irrigation. Cotton, citrus and other crops have performed twice as well with half the water when the drip system has been used.

Major savings can also be achieved by lining irrigation ditches with clay or cement to prevent seepage. Farmers in dry regions are finding they can raise crops that require less water. They are also learning that shrewder water management—for example, pacing water use according to stages of plant growth—has big payoffs. Researchers at Southern Illinois University estimate that as much as 30 percent of the water that farmers use is wasted.

City dwellers also must work to preserve their dwindling supplies. Manufacturers are surpassing all other segments of their communities in water economy techniques. For many, water recycling has become a normal business practice.

In California, where dwindling water supplies have long been a pre-eminent concern, many industries use the same water repeatedly and sometimes transfer it to other plants before it is finally treated and discharged.

For example, Great Lakes Properties near Los Angeles is buying used water from a neighboring Mobil Oil refinery. Mobil had been paying to have the water treated by a municipal plant. Great Lakes needed more water to force oil from wells whose life could be extended 15 years with a water injection technique.

IN DENVER a business park recaptures its wastewater, treats it and waters its golf course with it. A coal mine in Fairmont, W.Va., constantly recycles water needed in a slurry line that transports crushed coal from the mine to shipping points. The American Water Works Association says there are thousands of other examples of industrial water conservation. (Information about industrial conservation is available from the association at 6666 W. Quincy Avenue, Denver, Colo. 80235.)

Though it would be a multibillion-dollar solution, huge amounts of water could be saved if municipalities, businesses and homes repaired their leaky pipes. There are thousands of miles of pipes beneath most sizable cities. Many of these vast networks contain sections over a century old.

Homes and offices can further aid national conservation efforts by using less water in kitchens and bathrooms and on lawns and grounds. Toilets, showers, faucets and outdoor spigots can be made more efficient by installing new conservation fixtures or replacing old ones. Water analyst Brent Blackwelder says cuts of up to 68 percent in water use can be achieved in the home.

PHOTO: DAVID R. FRAZIER

Drip irrigation sends water to the roots of crops like Arizona cotton (top). It produces twice the growth with half the water required by sprinkling.

Water conservationists argue that water should be priced higher and be more accurately metered, so that consumers have a direct financial incentive to conserve. Larger revenues could, they say, be plowed into repairing leaky pipes. In the long run, with less water needed, fewer costly water plants would have to be built.

If water consumers follow the marketplace model that many businesses have adopted in using water, they will pay a lot less in the future if they save water today—and be better assured of an ample supply in the future. □

—Henry Eason

A CAVERNOUS FACTORY. Assembly lines. Workers performing identical tasks at each stage of production. The noise of high-speed machinery. Trucks waiting to load and head for distant delivery points.

The description does not apply, as it might first appear, to a Detroit automobile plant, but to an industry not ordinarily thought of in terms of assembly lines—housing.

Production in a housing factory moves quickly: A floor is laid, with carpeting and tile added next. Interior walls and roof assemblies go up, insulation goes on. Wiring and plumbing are installed. Kitchen and bath equipment are put in, followed by exterior walls, finish work and trim.

Tied down inside the units that will be bolted together on the final site to form the finished house are items to be put in place there—water heater, air-conditioning unit, gutters, doors, windows, caulking, nails and even a can of touch-up paint.

It takes four to six days to construct the components of such a house at Ryland Homes' modular housing plant in New Windsor, Md., where business is booming as the long-awaited housing recovery picks up speed.

Manufactured housing is one of many ways in which builders and realtors hope to meet the surging demand brought on by a sharp drop in interest rates over the past year.

Housing starts were running in early summer at an annual rate of 1.8 million units, the highest level in 3½ years. Sales of new homes in May totaled 648,000, the highest level since August, 1980, and sales of existing homes were doing equally well.

All that good news has understandably been most welcome to the builders, real estate agents, lenders and suppliers who make up the industry, but they tend to be cautious when asked how long and how deep the long-awaited recovery will be. Their answers are guarded and couched with references to economic and demographic variables.

Housing industry experts point out that formidable obstacles remain to the realization of a continuing boom in which the housing needs of all families and individuals can be met within their ability to pay.

Among those obstacles: continuing high prices for land in urban and suburban areas; the cost impact of federal, state and local regulations on residential construction; interest rates that, though lower, are still not stabilized; and the continuing threat of price inflation.

Harry Pryde, president of the National Association of Home Builders, says the housing recovery "looks good for the next 12 to 18 months," but he is quick to add that any upward movement in interest rates, "which are still too high," could abort the recovery.

PHOTOS: DAVID VALDEZ

Housing Boom: Built on a Solid Foundation?

The industry is enjoying recovery, but it fears that federal deficits will push interest rates back up.

By Mary-Margaret Wantuck

Leonard Shane, chairman of the U.S. League of Savings Institutions, says that failure to control federal budget deficits could threaten a return to interest levels that would hit housing markets hard.

THOSE DEFICITS, which economists agree could range from $175 billion to $200 billion a year over the next several years, are a source of major concern in the housing industry, which views them as a potential major threat to the recovery.

With federal borrowing expected to equal 40 percent of available credit, Howard Kane, deputy director of economics at the U.S. League of Savings Institutions, predicts there will be "a credit collision by the end of the year, with the home buyer paying the price."

Stuart McFarland, executive vice president of the Federal National Mortgage Association, says the key to "a prosperous tomorrow, in which homeownership continues to flourish, is finding enough investors to buy mortgages."

FNMA and the Federal Home Loan Mortgage Corporation have been the two principal bulwarks of the secondary mortgage market. They have been buying mortgages from lenders and selling them to other investors, thus providing a flow of fresh capital to the housing markets. The challenge of find-

Pension funds are the key to providing more mortgage money at lower rates, says HUD Secretary Samuel Pierce (opposite, left). In their effort to provide homes at affordable prices, builders like Ryland Homes (above) are turning to factory production.

ing sufficient capital will intensify over this decade: By 1990 housing credit needs are expected to reach $400 billion a year, compared with the record peak of $150 billion in the late 1970s.

Samuel Pierce, Secretary of Housing and Urban Development, sees one answer in legislation to spur home mortgage lending by the nation's pension funds.

Those funds now hold $800 billion in assets. Pierce says they could be "the single most important source of financing for mortgage-related instruments."

APART FROM the economics, demographic factors come into play in shaping the present and future housing market. The primary age group for family formation—20 to 34—grew by 17 million individuals during the 1970s, as the baby boom generation matured. They constitute a sizable market for smaller homes, which the residential construction industry is building in greater quantity to keep prices down and use land more efficiently.

Arthur Danielian, president of Danielian & Associates, a Newport Beach, Calif., architectural firm, says, "There are 10 million baby boomers, childless for the most part, looking to buy their first homes, as well as many more elderly people and younger singles." Danielian views them as potential buyers of homes that in spite of their reduced size offer kitchens equipped for gourmet cooking, hot tubs, more security and other amenities in tune with modern lifestyles. Bruce E. Karatz, president of development for Kaufman & Broad, a major California home builder, says that "people don't buy houses by the square foot any more than they buy cars by the pound. People are buying for lifestyle and to build up equity."

Whatever their reasons for buying, the surge of purchasers into the market is putting upward pressure on prices. Prices of newly constructed houses are up 14 percent compared with a year ago and those of existing homes are up 4 percent, the National Association of Realtors reports. Median prices now are $79,000 and $72,000, respectively.

How long that pressure will continue is another matter. The growth of the 20-to-34 age group will be much smaller in the 1980s than it was in the '70s, with a related drop in new family formation.

Although industry sources predict housing starts in the late 1980s will reach 1.8 million a year—50 percent above the depressed total of 1982—that level would still be significantly below the 2 million mark once anticipated by the end of this decade.

Over the long term, all industry experts agree, the key to whether the boom will be sustained rests on whether housing can be kept affordable. Its affordability is the main reason for the spurt in manufactured housing.

Charles E. Peck, chairman of Ryland Homes, says modular housing will become "the superstar of the housing industry over time." However, he says, the modular approach is not for every builder. "For the multicity builder who holds large tracts of land, field-erected housing systems are the way to go. Builders can offer more space per dollar while controlling quality and taking advantage of lower mortgage money."

MODULAR HOUSING, he says, will become more and more a part of the industry because of inherent advantages:

- No delays or damage caused by weather.
- In-plant security systems that prevent pilferage, which can add to the cost of housing built on-site.
- Construction time of four to six days per unit, compared with 90 to 120 days for on-site housing, enabling modular-home builders to save on borrowing costs.
- Lower personnel costs.

Ryland says its approach allows sale of its homes at 15 percent less than the cost of comparable site-built houses.

Taking an overall view of the industry, Peck compares it to a roller coaster: "Those home builders who survived the last loop-the-loop are on a swift ride upward, but they're keeping a tight grip on the handrails, because somewhere up ahead of us is another breathtaking drop."

But he also believes that "those builders with strategies that allow growth in spite of the ups and downs will do more than survive—they will prosper." □

How To Survive An EPA Inspection

The inspector's visit may be a surprise, but if you and your employes know the law, at least it won't be a nasty surprise.

By Steven N. Klein

When EPA inspectors appear at a plant, their government identification cards should always be checked. Must EPA consultants be admitted, too? The Supreme Court may decide in 1984.

One of the most troublesome issues confronting companies subject to federal environmental laws is how to handle a surprise inspection by a representative of the Environmental Protection Agency.

If your company has already had a surprise inspection, you probably now have a policy to deal with such visits in the future. If it has not happened yet and your company has not developed a policy, you might find yourself in a dangerous position should an inspector arrive unannounced on your doorstep.

The likelihood of an inspection depends on the type of business you are in and the state in which your plant is located. Generally, manufacturers in the Northeast, Midwest and Far West are inspected more frequently than those in the South or Southwest; the EPA's regional offices in those areas are more active. Publicly held corporations are more likely to be inspected than privately held ones.

If your plant discharges or disposes of ignitable, reactive, corrosive or toxic wastes, you will probably be inspected. That is true, too, if your plant is one of 26 types of operations (including pulp mills, glass plants, cement plants, smelters and chemical plants) and discharges, or has the potential to discharge, more than 100 tons of any pollutant in a year.

All plants that can discharge over 250 tons a year are likely to be inspected. And manufacturing operations with annual sales of more than $10 million are likely to be using processes that could lead to an inspection, regardless of the amount of discharge.

If your operations do not fit any of these categories, a surprise inspection is less likely, but there is no way to guarantee immunity.

Unless you prepare for a surprise inspection and discuss appropriate procedures with your staff, your company might be stuck with the consequences of a potentially damaging response that an unprepared employe might give to the inspector. You might have to live with illegal or incorrect responses by a frightened employe, who thinks he is acting in your best interest but could enmesh you in lengthy, embarassing and costly battles with the regulators.

For example, a well-intentioned employee might refuse access to the EPA inspector. That is illegal. The employe might ask to see a search warrant. That is legal but perhaps unwise, since the warrant will probably be obtained and the inspection that follows will surely be much more detailed. The employe might even say that you have no idea what is coming out of your stack or that you simply wash spills away to the nearest sewer. That is damaging at best, disastrous at worst.

You can save yourself considerable time, money and aggravation if you know your rights, consider the practicalities of the situation and set a policy in advance of a surprise visit. Here are some hints:

Know the laws. The Clean Air Act applies to all buildings, structures, facilities and installations that emit or have the potential to emit air pollutants, and to "indirect sources," like parking lots and driveways.

The Clean Water Act covers discharges from "point sources" into navigable waters. A point source may be a pipe, ditch, tunnel, well, floating craft or other discernible, confined and discrete conveyance. The term navigable waters can include waters that are not, in fact, navigable by anything larger than a rubber raft—shallow inlets containing clam beds, fishing ponds, swimming holes.

The Toxic Substances Control Act applies to manufacturers and processors of chemical substances, and the Resource Conservation and Recovery Act regulates waste disposal on land.

In addition, many other federal environmental statutes may apply to your company's operations; they include the Noise Control Act of 1972, the Federal Insecticide, Fungicide and Rodenticide Act, the Surface Mining Control and Reclamation Act of 1977 and the Coastal Zone Management Act.

Conduct an environmental audit. Make an environmental assessment of your company's facilities under supervision of an attorney who knows environmental laws and understands your company's operations. Examine care-

STEVEN N. KLEIN, *a partner in the Chicago law firm of Holleb & Coff, has taught environmental law and has been an attorney for the Illinois Pollution Control Board.*

fully what applicable local, state and federal environmental laws require you to do and what you are, in fact, doing. Analyze all sorts of factors—air emissions, water and waste disposal systems, pipes, conduits, spill control programs and any other feature of your operation that could cause pollution.

These audits often take a week or more to conduct and require technical and legal input. If your attorney is supervising the audit, the results will, in most cases, be protected by the attorney-client privilege and therefore not subject to disclosure without consent.

Recently, a large Texas company whose attorney had conducted a special internal audit was successful in preventing disclosure of confidential communications between the firm's accountant and its attorney. However, an Ohio federal court required a British subsidiary of General Electric Company to disclose results of a similar study conducted by a technical expert who was not a lawyer. These cases represent a valuable lesson for corporate managers and planners.

An environmental audit is the best method of determining what laws and regulations apply to your facilities, what your potential problem areas might be and what your monitoring data show. The more employes involved in the process, the better off you will be, since they will appreciate your company's concern for environmental compliance.

Depending on what you learn in your audit, you may want to analyze the economic impact of needed corrections and institute remedial measures. Including corrective measures in your company's budget permits orderly progress toward compliance and avoids the potentially disastrous costs of agency- or court-ordered compliance.

Understand EPA's right to inspect. The Clean Air Act grants broad authority to the EPA administrator and his representatives to enter the premises of any company required to maintain records or to monitor or sample emissions. An inspection does not have to be announced in advance. Refusal to comply with an inspection could lead to fines of $25,000 per day, and falsification of information is subject to criminal penalties including imprisonment.

On the other hand, if public access to your company's facility is ordinarily restricted, you can usually insist on a search warrant unless a civil action has been started against your company. Invariably the EPA will obtain a warrant. You will not enhance your reputation as a cooperative business person when you demand a warrant, but you may wish to exercise this right if you believe that you can obtain important information about the proposed inspection's purpose at the warrant hearing.

There are limited ways to attack a warrant that has been issued, but the burdens involved in such a challenge often become prohibitive. You will probably spend a great deal of money, only to find that the courts uphold issued warrants except in the most extraordinary circumstances.

One way or another, if the regulators want to inspect your facilities, they will be able to do so, and you had better know which laws apply to you and which laws you may be violating.

The Clean Water Act grants the EPA administrator limited inspection rights similar to those in the Clean Air Act; likewise, the Toxic Substances Control Act provides that the EPA may inspect, at reasonable times and on written notice, any facility where chemical substances are handled. Broad rights are given to the EPA and its contractors to inspect hazardous-waste facilities under the Resource Conservation and Recovery Act.

Check inspectors' credentials. EPA inspectors, as authorized representatives of the administrator, clearly have the right to inspect your operations, subject to the limitations already discussed. Be sure to have their credentials checked—they should carry government identification cards—and if you still have a doubt as to their identity, call the regional office for verification before allowing them in.

If, however, an authorized inspector shows up with consultants the EPA has hired to provide a greater degree of specialized, technical support, the rules change. Under the Resource Conservation and Recovery Act, these private contractors are indeed "authorized representatives" of the EPA administrator, but their status under the Clean Air Act, the Clean Water Act and the Toxic Substances Control Act is unclear because of conflicting decisions by federal appeals courts. The Supreme Court has agreed to review the issue and is expected to issue a decision sometime in 1984.

PHOTO: STEVE STRICKLAND—IMPACT PHOTOS

The wide range of federal environmental statutes and their inspection provisions covers air, water, waste disposal, noise and surface-mining operations like that shown here.

As things stand, under those three acts private contractors are not necessarily covered by tort liability and confidentiality standards that apply to federal employes. You thus may wish to exclude them, or at least have them sign a "hold harmless" agreement, releasing you from liability for anything that happens to them on your premises, and a confidentiality agreement, protecting your trade secrets and proprietary commercial or financial information from disclosure.

You should, however, continue to analyze carefully the law in this area.

Formulate company policy. Because of the risks, it is crucial to have a written company policy before an inspector arrives. That way management will have had an opportunity to consider the issues and develop a rational response before an inspection.

Be sure to give the responsibilities of an environmental affairs manager, or similar position, to the individual best qualified—from a legal, technical and public relations point of view—to provide the inspector with a knowledgeable and courteous escort through your facilities.

The environmental affairs manager should have sufficient technical expertise to know how your company's equipment works and what the components of its discharges are. He should understand the legislative process and how regulatory agencies work.

Whatever your personal opinion of the EPA may be, approach these issues in a careful, well-reasoned and businesslike way and avoid hostile confrontations. A company itching for a fight will generally find one. And remember, a company unaware of its rights will generally lose them. □

To order reprints of this article, see page 65.

Why Japan's Management Styles May Not Fit Here

U.S. executives pioneered basic strategies now used by the Japanese. But cultural differences often call for different tactics.

By Thomas McGovern

PHOTO: EIJI MIYAZAWA—BLACK STAR

Quality circles like this one at a Toyota plant are effective in a country where group effort is the norm.

LARGE SEGMENTS of American business today are preoccupied with Japan, Japanese productivity and worldwide Japanese economic penetration. The Americans are looking for solutions to their own industrial problems, and they are focusing on the management, organization and production techniques that brought Japan from devastation to economic superpower status in a generation.

As a result of that search, participative management is in, and quality circles—formal groups of workers and supervisors who talk about quality—proliferate. What's good for Toyota is good for the United States. Everyone is a manager, and the whole world is a resource.

But before you, the traditional American manager, rush to adapt Japanese techniques to your business, you should be aware of two crucial considerations:

- Participative management has had only mixed results where it has been tried in this country thus far, and it sometimes is a divisive force instead of a force for close ties between workers and supervisors.
- Japanese managerial "innovations" can often be traced to American business giants of the early 20th century, who built industrial empires on productivity, quality and customer satisfaction.

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Though participative management should not be rejected out of hand, it is no panacea for deep-seated problems within American industry. Too many attempts at increased worker involvement in management, under whatever name, are launched on a wave of euphoria and collapse in resentment or apathy.

Participative management or quality-circle projects that do not recognize the special nature of the American workplace, as contrasted with the Japanese workplace, can deteriorate into ineffectual gripe sessions or become vehicles that allow rank-and-file employes to bypass production-line supervisors and deal directly with management. Such situations can lead to serious difficulties.

Advocates of participative management usually blame failures on lack of commitment by all involved or on inadequate preparation of workers. Such analyses do not give sufficient weight to cultural and philosophical differences between Americans and Japanese. Those differences should be the prime consideration in determining whether organizational and managerial techniques can be transplanted.

Americans are competitors. From our earliest years, we are encouraged to compete and are belittled for failing to do so. Our special version of Western culture is rooted in the idea that competition is beneficial, productive and necessary. Young people prepare themselves for later life by competing academically, athletically and socially. When they enter business, their competitive instincts are sharpened by a workplace dialogue rich in the metaphor of the playing field, with the score tallied in terms of productivity and profit.

ALL THIS REALLY is not surprising. Our form of government, with its three branches designed to check one another, rests on principles of competitive interaction. The free enterprise system, grounded on laissez-faire capitalism, is strikingly competitive. Our legal system is an adversary one, in which conflict is resolved through competition. Collective bargaining by management and labor is another forum in which competition is a dominant element.

Competition extends beyond our political, economic and legal systems deep

into other aspects of the American psyche. The religious heritages of many Americans view the human spirit as a battleground on which good and evil compete. Modern psychology recognizes the competition of self against conscious and unconscious forces.

Thus, a world and a self of contending forces are fundamental to our outlook. The Japanese can be as fiercely competitive as Americans, but the nature and direction of their competitive instincts set them apart.

Japanese culture has produced a world view that is as unified and supportive as ours is individualistic and combative. The self is not seen as divided or embattled, nor the group as hostile. One can therefore enter easily into cooperative effort at any level. The key to this ability lies in the lack of conflict between individual and group goals. The Japanese are accustomed to group effort, supporting those within the group and competing only with the outside world.

This emphasis on group effort covers a lifetime. For example, an academically gifted child in the United States will probably be allowed to skip grades or be placed in an elite group of similarly gifted children. But in Japan such youngsters would remain with the slower learners, using their superior skills to help their classmates. The attitudes and techniques of the quality circle are thus instilled in them from the beginning.

Performing as part of a smoothly functioning unit is natural and comfortable for the Japanese. Since the end of World War II there have been numerous instances of the remarkable ability of the Japanese to work together, resulting in the rebirth of international trading firms and the development of new technological giants.

A consensus on objectives was developed among government, management, labor, finance and even the press. That unity resulted in the successful strategy for economic penetration of Western markets.

IN THE United States, cooperation on such a vast scale would be illegal at worst and infuriating at best. American attitudes are reflected in antitrust laws, in widespread opposition to government intervention in business and in the ever-present concern that centralized economic planning carries with it the threat of centralized economic control. These attitudes are mystifying to the Japanese manager or political administrator.

Consider how the problem of environmental pollution from industrial processes was addressed in the two countries. In the United States, the issue was handled (or mishandled, depending on your point of view) by creation of a permanent confrontation involving business, government, citizen-action groups, environmentalists and other forces. Businesses facing environmental dictates from the government plead economic hardship. The government oscillates between byzantine regulations and the need for further study.

Now consider Japan. Its environment suffered heavy damage while the economic miracle was being produced in the 1950s and 1960s. In the last decade, the same union of forces that accomplished the miracle has joined in launching an environmental turnaround, and Japan spends more per capita on environmental control than any other industrial nation.

Should we conclude from all of the foregoing that the American and Japanese cultures are simply too diverse to permit the transfer of management techniques?

Not at all. The real question is whether we can once again put to work for ourselves the techniques Japan borrowed from us when it began rebuilding after World War II. We must realize that the Japanese borrowed not only those techniques but also the spirit behind them. They developed comprehensive visions of the nature and goals of their respective businesses, visions in which product and performance were related directly to service. In this approach, Japanese industrial leaders were adapting methods similar to those of American business giants of the early 20th century.

The Americans were also committed to creation of a working environment that would maximize development of the single most important corporate resource—people. Their view is echoed in modern Japanese corporate culture, with its relentless quest for quality, customer satisfaction and productivity.

And the solution to American industry's problems of quality, customer satisfaction and productivity must begin in the executive offices of American industry. Many American executives need to relearn, or at least take a refresher course in, guiding principles that brought their businesses and industries to the point where they were models for the Japanese. □

PHOTO: NIK WHEELER—BLACK STAR

Gifted U.S. children often skip grades or are put in special classes. In Japan, where these kindergartners are studying computers, the gifted stay with slower learners, helping them.

PHOTO NASA

PHOTO ALAIN NOGUES—SYGMA

Have Rocket, Will Rent

Government policy has shifted in response to business eagerness to tap the vast potential of space.

By Del Marth

QUEUES ARE FORMING at the nation's launching pads. Former astronauts, computer whiz kids, pharmaceutical researchers, geneticists, horticulturists, engineers—they are lining up with new rocketry and boxes of experiments, eager to cross the latest frontier.

"It is extraordinary how much money is going into new space industries," says Roger Selbert, a vice president of Security Pacific National Bank in Los Angeles. "We've had to add another vice president whose sole job is to handle inquiries from these new entrepreneurs."

President Reagan also sees the potential in the commercialization of space. In a directive issued in May, he said:

"Partnership between the U.S. private sector and the U.S. government will strengthen the U.S. space launch capability . . . contribute favorably to the U.S. economy and maintain U.S. leadership in space transportation."

No one agrees more than the private sector. But ever since the space age began some 20 years ago, hitching a ride has not been easy for business.

A major reason is that the U.S. government owns the launching pads and the tracking stations. It controls permits and licenses for space flights. It sets the price, and the schedule, for taking up commercial payloads.

The private sector, which helped create and refine the technology that made the United States pre-eminent in space, now wants part of the action. It will get it, according to the White House directive, because the government, like the private sector, sees the nation as a whole benefiting from the commercialization of space.

Key to the new policy is the ELV, the expendable launch vehicle—a rocket that cannot be used more than once. Before the advent of the re-usable space shuttle, all launches of payloads into space were achieved with ELVs like the Atlas, the Delta and the Titan. With the success of the space shuttle, the government planned to phase out ELVs later in this decade.

Under pressure from the private sector and because of increasing foreign competition in the payload-launching business, the government is now changing its mind. Not only does it see merit in using the ELV to handle commercial space experiments, but the National Aeronautics and Space Administration and the Defense Department have come to believe the ELV would make a fine backup for the shuttle.

There once was concern that the ELV would compete with the space shuttle. The shuttle does carry commercial payloads, particularly communications satellites, and NASA plans that it will continue doing so. But the shuttle's major mission remains government business.

Dismissing the concern over competition, Defense Under Secretary Herbert A. Reynolds told the House Subcommittee on Space Science and Technology:

"We are committed to the shuttle as the primary means for achieving access to space, and we do not believe the commercialization of ELVs will seriously affect the viability of the shuttle program."

He added that "the U.S. government must suppport and encourage the U.S. private sector to compete for the multimillion-dollar satellite payload and launch services market—or risk losing a portion of it to foreign competitors."

A project to stimulate that private-sector participation is under way.

"The time is right," says Kathryn

American rockets that can be used only once, like the Titan (top), were to be phased out of the space program but may get a reprieve because of their potential for carrying commercial payloads. A European rocket, the Ariane (bottom), is already lifting payloads for U.S. corporations.

Little, director of development of the National Chamber Foundation in Washington, "to establish a unified industry position to encourage private commercial activity in space."

THE FOUNDATION is putting together a task force of 30 executives representing companies that have been—or want to be—active in space-related industries. Their assignment: compile a detailed, comprehensive package of recommendations on how to foster commercial development of space.

"These recommendations," says Little, "will be readily translatable into a legislative program." Issues to be covered include:

PHOTO: DAVID VALDEZ

The U.S. space shuttle, seen here atop a cargo plane, will remain "the primary means for achieving access to space," an official says.

- Ensuring open and competitive markets.
- Joint government/industry research and development.
- Designating a federal agency to oversee business ventures in space.
- International treaty obligations.
- New institutional arrangements to speed transfer of technology from government to business.
- Efficient commercialization of expendable launch vehicles.
- National security considerations related to private space activity.

The task force and its research activities will be supported by industry contributions. It is expected to take 12 months to put the package of recommendations together.

Little explains: "The companies that now have individual proposals before the government for commercial space activities face a largely unstructured bureaucratic environment, which is frustrating, time-consuming and expensive."

She says that a paramount concern of government officials is to avoid giving preferential treatment to particular companies and that a unified industry position will assure government decision makers that the task force proposals meet the business community's needs.

Five basic areas of commercial space activity are involved, says Gregg Fawkes, president of Pegasus Software, Inc., a computer software design firm in Washington, and the task force's principal researcher:

- Space transportation launch services, which include those firms now making ELVs or planning to build their own launch systems.
- Space materials processing, a fledgling industry using weightlessness in orbit to process silicon crystals, new and purer pharmaceutical drugs, and advanced alloys.
- Industrial research, which includes the study of processes in weightless conditions and the application of those research techniques on Earth.
- Communications, the largest of commercial space activities, which involves transmitting signals from fixed or orbiting satellites to Earth stations.
- Remote sensing, a field similar to the use of existing satellites to photograph and monitor the Earth's surface in search of natural resources.

Says Fawkes: "Our approach is quite different from other studies that have taken a look at potential space commercialization."

He notes that the NCF task force will be composed only of business people, representing a wide range of industries that might realize new growth opportunities in space. Many of the firms involved in the task force have not been active in space before.

"We will be addressing a very broad range of issues, from international treaties to government R&D policy," Fawkes continues. "This is necessary in order to establish a solid foundation for commercial activity in space."

The task force's recommendations will be very detailed, he says, since "general recommendations seldom get translated into action."

Fawkes says that Covington & Burling, a prestigious Washington law firm, "will be working with us to draft recommended language. So, for instance, if we find that treaty language needs to be amended to support private activity in space, we will propose some specific changes."

The NCF study will not try to "pick the winners" among countless new business opportunities in space. Rather, Fawkes says, the task force is concerned with making sure that an environment is created that will permit anyone who wants to explore new space applications to do so easily and efficiently.

"Space already provides many economic dividends and will do so on a much larger scale in the future," says Fawkes. "Space itself offers a whole new basis of scientific knowledge. And space applications drive a variety of other technologies—advanced communications, materials, energy cycles and robotics—that will be the basis of the next wave of economic expansion."

(Businesses interested in the work of the task force may write to Kathryn Little, Director of Development, National Chamber Foundation, 1615 H Street, N.W., Washington, D.C. 20062. Reports on the task force's progress will be released at frequent intervals, and the final report will be published in May, 1984.)

Commercialization of ELVs requires congressional approval of the continuing manufacture of the expendable rockets, which would be paid for and used by industry. The government would make available its launching facilities and equipment, at a price low enough to encourage their use.

The idea that the space shuttle could handle all space hauling for government and industry has been scrapped. Foreign competitors have successfully solicited U.S. corporations to send payloads up on the Ariane, an ELV launched from French Guiana by the European Space Agency. The agency is supported by both government and private funds from Western European nations.

ARIANE'S launch record to date has been spotty. Using an ELV similar to the Atlas, the European agency has sent up six rockets, but only four launchings have been successful. Nevertheless, the agency offers attractive rates for commercial payloads. Its marketing specialists in this country are convincing American firms that they can fly into space with the Ariane at a lower cost than on the shuttle, and on a precise schedule. The space shuttle has so far not managed to adhere to a precise schedule.

So aggressive has been the European agency that the Office of Technology Assessment, an advisory arm of Congress, reported last year that the United States was close to losing the lead in several critical areas.

OTA warned that the Europeans, and the Japanese as well, were taking a growing share of the market for satellite communications. Likewise, the report said, the U.S. lead in remote sens-

Space may be an ideal environment for some enterprises, including growing silicon crystals like these.

ing of the Earth's surface could be lost to the French by the middle of this decade. Also threatened was American pre-eminence in the processing of exotic metals and pharmaceuticals in space.

NOT SURPRISED that the foreign market is hustling American industry is William F. Rector, a vice president of General Dynamics. He estimates there will be a "need for launch services for approximately 245 commercial satellites between 1986 and 1995."

That represents, he says, more than $10 billion in potential launch vehicle revenue over the 10-year period. He points out that "schedule flexibility and reliability are ranked more important than launch costs by most commercial communications satellite users."

The United States is running less than a half-dozen shuttle flights a year and plans no more than 24 such flights annually in the 1990s.

James E. Beggs, NASA administrator, agrees with Rector that when "commercial launch requirements are considered in conjunction with planned Defense Department, NASA and other U.S. government missions, the demand exceeds the supply capability of the space shuttle in both the near and the far term."

The ballooning demand by business to get into space is particularly significant to Martin Marietta Aerospace. It manufactures the Titan, the granddaddy of ELVs. Discontinuing the Titan would cost "some 6,000 jobs for 220 suppliers in 25 states," says Peter B. Teets, general manager of the firm's space launch systems division.

But the economic effect of continuing the ELV system, not just the Titan, is even more wide-ranging, he says: "A proven lower-cost alternative to foreign space launch systems will reduce imports and contribute to our balance of trade. Likewise, the acknowledged U.S. leadership in space technology will be enhanced by commercial launch capabilities without burdening the federal budget."

He points out that these activities "directly translate into increases in high-technology jobs, with the usual multiplier effects on employment in other sectors of the country."

Some aggressive American entrepreneurs can't wait. While urging the U.S. government to embrace commercialization of space, they are building their own launch systems.

Space Services, Inc., of Houston, is one such firm. SSI, whose executive in charge of space flights is former astronaut Donald K. "Deke" Slayton, raised $6 million last year from foresighted Texans and launched its own rocket—the Conestoga I.

Next year another new name in ELVs—the Dolphin—will soar from the water 200 miles off the California coast as the initial effort of Starstruck, of Redwood City, Calif.

The Conestoga and Dolphin are low-orbit rockets—they carry their payloads into orbits 100 to 10,000 miles above Earth. Their launch pads are relatively inexpensive to build, at about $1 million, compared with launch facilities for a multistage Titan, at near $100 million. Titans and comparable rockets push sophisticated payloads, like communications satellites, into required higher orbits, the ideal being 22,300 miles, where satellites orbit at the same speed as Earth and thus remain above the same point constantly.

For the government to dismantle its ELV launching sites at Cape Canaveral in Florida and Vandenberg Air Force Base in California would be both wasteful and expensive, space experts now contend. The demand for ELV missions by industry, and as a backup for the space shuttle by the Defense Department, now seems clear.

BUSINESS IS aware that building its own launching facilities and ordering up a nonre-usable rocket like the Titan costs more per pound of payload than using the space shuttle—perhaps twice as much. But corporations that need high-orbit satellites are more concerned at present with getting aboard flights, and on schedule, than with initial cost.

Companies that need less expensive low-orbit payloads make up the market the new launch-system firms like SSI and Starstruck are going after.

They talk about using low-orbit satellites to prospect for minerals and oil, collect data on crops and forests and locate rail cars that railroads have lost track of. Texas oilmen foresee using low-orbit satellites to check on oil flow

The Shape of a New Space Policy

Although there is growing private sector participation in the space program, the federal government will continue to play the dominant role for many years. The Reagan administration described its partnership approach in announcing that the government "fully endorses and will facilitate commercial operations" of ELVs—expendable launch vehicles.

ELVs, the White House said, could help the United States "achieve routine, cost-effective access to space" while ensuring that the nation maintained "space transportation leadership."

Some elements of the new policy:

- The government will license, supervise and regulate American ELV operations "only to the extent required to meet its national and international obligations and to ensure public safety." On the other hand, commercial ELV operators must continue to comply with applicable laws and regulations—local, national and international—including security, safety and environmental requirements.
- The government will encourage the use of its own launch pads for commercial ELV operations. The government will have "priority use" of its facilities "to meet national security and critical mission requirements," although it will "make all reasonable efforts to minimize impacts on commercial operations."
- No government subsidies of private ELVs are contemplated, but the government "will price the use of its facilities, equipment and services consistent with the goal of encouraging viable commerical ELV launch activities."
- The government will encourage competition among ELV operators by providing "equitable treatment for all commercial launch operators" when government equipment and facilities are being sold or leased.
- If private operators wish to build their own launch facilities, they must submit their plans to the government for approval.

The White House directive emphasizes that despite the new policy of encouraging private ELV operations, the government "will continue to make the space shuttle available for all authorized users—domestic and foreign, commercial and governmental," with prices to remain stable through fiscal 1988.

from their wells without having to send someone to read the meter.

If these small launch systems succeed and the government continues the ELV system in cooperation with industry, rockets carrying manufacturing and testing equipment will become commonplace. They will spawn a space traffic industry similar to the one that has grown around commercial airlines.

Orbital Systems Corporation, of Chicago, is an example of a new firm entering space commerce.

Three former Harvard graduate business school students—David Thomson, 29, Scott Webster, 30, and Bruce Ferguson, 28—undertook a study while at Harvard of how the government might encourage private investment in space operations. Their research prompted them to borrow funds and create the Chicago firm. Their product: a rocket to launch commercial satellites from the orbiting space shuttle into a higher orbit.

NASA has contracted with them to produce the rocket, convincing Thomson, the firm's president, that "space is the next commercial frontier."

SUCH VENTURES delight former Commerce Secretary Philip Klutznick. As head of a panel from the National Academy of Public Administration in Washington, he helped prepare a NASA-commissioned report on encouraging business ventures in space. His conclusion:

"The government must involve more American companies in our space program if we are to justify the heavy investment the American people have made in the last quarter century."

Klutznick's panel recommended that the government make launch schedules predictable and reliable, grant full rights to inventions and proprietary information to private parties in joint endeavors and support private financing of space vehicles.

Congress listened in May to a parade of government officials and business leaders who unanimously supported the President's policy of sending Yankee ingenuity into space. Before the House is the Space Commerce Act, a bill to spell out guidelines for commercial exploration and to designate a government agency—the Defense Department, the Commerce Department or the Federal Aviation Administration—as the clearinghouse.

Says Space Services, Inc., Chairman David Hannah, Jr., a member of the National Chamber Foundation task force and the visionary behind the Conestoga rocket system in Texas: "There are going to be markets for space business that we haven't even guessed at."

To Hannah and other entrepreneurs, the upcoming encounter with space business is, like space itself, without limits. □

The Travel Industry Picks Up Speed

Tourism is "poised for an era of growth" as the economy rebounds.

By Bob Gatty

Tourism is dominated by small businesses, including such attractions as Norman Clark's narrow-gauge railroad (left) and travel agencies like Empress Travel in Washington, whose manager is Alouise Fenstermacher

THE TINY STEAM locomotive chugs along the winding mountain track, through a glistening meadow and then through groves of giant redwoods, on its way from the town of Roaring Camp to the top of Bear Mountain.

Huffing and puffing up some of the steepest railroad grades in North America, the locomotive is pulling brightly painted cars filled with tourists.

The train is there because of Norman Clark—string tie, pin-striped shirt and big grin—who runs the Roaring Camp & Big Trees Narrow Gauge Railroad. He has four miles of track in California's Santa Cruz Mountains.

Clark is a lifelong railroad buff who turned a hobby into a successful business. Twenty-five years ago, with 800 feet of dilapidated track, $25 and a run-down station, he began trying to "bring the 1880s back to life." Today Clark, his wife, Georgiana, and 75 full- and part-time employes operate a bustling attraction that draws not only traveling Americans but also many tourists from abroad. Tour operators worldwide send people to Roaring Camp, which was settled by Daniel Boone's nephew, Isaac Graham, in the 1840s.

Norman Clark has some pioneering spirit, too. When Gray Line recently abandoned the Roaring Camp portion of its Northern California tours, he established his own bus company. His California Pacific Coast Tours offers daily sightseeing trips from San Francisco.

Clark's enterprise typifies the vast majority of the businesses that make up the giant tourism industry: They are small. The Travel Industry Association of America says 99 percent of the businesses in the industry are small.

True, there are giants, like the big airlines and the hotel and motel chains. But many links in those hotel and motel chains are owned and operated by individual franchisees. That holds true for car rental companies, commercial campgrounds and restaurant chains, too. (Though some restaurants have little or no tourist trade, an estimated $40 billion in restaurant revenue—about half the total—came from business and vacation travelers last year.)

Tourism has emerged as the second largest retail or service industry in America, after food stores. "What is one man's pleasure is another man's livelihood," says TIA President William D. Toohey.

The industry was one of the few bright spots during the recent recession, and some experts believe it may actually be accelerating the recovery. Toohey says that during the recession, consumers postponed travel as they waited to be sure their jobs and incomes were secure. As those fears disappear, he says, consumers are taking trips and thus pumping money into the economy.

Toohey says that in 1981 American and foreign travelers spent $191 billion in the United States—up 11 percent over 1980—and that last year receipts increased another 7.5 percent, despite poor economic conditions.

William H. Edwards, TIA's national chairman and president of the hotels division of Hilton Hotels Corporation, notes that tourism provides jobs for 6.8 million Americans, making it the second largest private employer.

While the unemployment rate was rising in 1982, employment in the tourism industry was increasing by 1.6 percent over the year before.

Last year was, however, a hard one for most airlines, and "things are still tough," says Bill Berry, manager of corporate public relations at Delta Air Lines. In addition to the recession, Delta and other established airlines had to contend with new, aggressive competitors spawned by deregulation. The 1981 air controllers' strike prevented the stronger carriers from expanding, and the impact of that was felt last year. In addition, the cost of jet fuel shot up.

Poor economic conditions and greater competition prompted many carriers to offer fares that were not cost-justified, Berry says, and "the result is that we've got a weak industry. Not many can say they are still healthy."

Overall, the nation's airlines carried 7 million more passengers in 1982 than in 1981 but lost a record $733 million, according to the Air Transport Association.

HOWEVER, like other components of the tourism industry, the airlines are "poised for an era of growth," according to ATA President Paul R. Ignatius. They expect to benefit as the economy rebounds, fuel prices stabilize and the air traffic control system's capacity is restored. In June several major carriers announced plans to discontinue their discount coach fare programs—a move calculated to return them to profitability.

By contrast, the camping sector of the tourism industry had a great year in 1982.

PHOTO DAVID VALDEZ

Charles C. Chouinard, president of Leisure Systems, Inc., which runs both Yogi Bear's Jellystone Park Camp Resorts and Safari Campground System, says the firm has never had a bad year since he took over 13 years ago. Camping does well even in lean economic times, he says, because it is an inexpensive way for people to vacation. The campgrounds are operated by Leisure Systems' small business franchisees.

The Recreation Vehicle Industry Association says RV sales in the first four months of 1983 ran 43 percent ahead of sales in the same period last year and were nearly double sales in the first four months of 1980. Sales have increased as the cost of gasoline has stabilized.

For restaurants, the picture is brightening, too—a development that could have a significant impact on the unemployment rate.

Jeffrey R. Prince, National Restaurant Association senior director, predicts that restaurant business in 1983 will be 3.3 percent greater than last year, adjusted for inflation. That would be, he says, the industry's largest real sales growth since the mid-1970s.

The food service industry (which includes institutional facilities as well as restaurants) accounts for 5 percent of gross national product, according to NRA; sales this year are expected to reach $144 billion. The Bureau of Labor Statistics projects that full-time food service employes will increase from 5.6 million in 1978 to 7.8 million in 1990—a gain of 39.5 percent.

Hotels and motels, with 2.5 million rooms, revenues last year of $29.3 billion and 1.2 million employes, are also a major—and growing—factor in the economy.

BUS COMPANIES soon will feel an increase in competition as the result of deregulation legislation approved last year, and travel agents, too, face a form of deregulation. The Civil Aeronautics Board has said travel agents should no longer have the exclusive right (in addition to the airlines themselves) to sell airline tickets and receive commissions. The 20,513 travel agency locations spread across the nation, with an average $1 million in revenue apiece, are a key link between airlines, hotels and consumers.

Government actions of many kinds have a significant impact on the tourism industry. During the energy crisis of the '70s, when the Energy Department proposed restricting gasoline sales on weekends, TIA led the drive to establish what is now the Travel and Tourism Government Affairs Council, which lobbies for policies helpful to tourism.

The council is backing legislation that would give the U.S. Travel and Tourism Administration $13 million in fiscal 1984. The agency, which has the job of promoting the United States as a destination for foreign tourists, would also get $14 million in fiscal 1985 and $15 million in fiscal 1986. USTTA was funded at $7.6 million this year.

Council Chairman Richard Ashman, vice president of government and industry affairs for Holiday Inns, Inc., contends that if the increased funding is provided, $273 million more in federal tax revenues would be generated over the three years. In addition, he says, 55,000 jobs would be created.

Ashman points out that the U.S. share of world tourism receipts fell from 13 percent in 1976 to 10.6 percent last year, paralleling a downward trend in government funding for promotion abroad.

The council is supporting legislation to set up a pilot program to waive visa requirements for visitors from five countries designated by the Attorney General and Secretary of State. It also backs easing customs delays. The Commerce Department estimates that 400,000 people decided last year not to visit the United States because they expected difficulties involving visas and customs.

In general, the industry is seeking to make Congress and the Reagan administration aware of its positive economic impact. As Hilton Hotels' Edwards notes, "Tourism is everybody's business. The economic benefits extend directly and indirectly to the entire population." □

Business Travel: It's Big Business

The business traveler is important to the tourism industry. According to the Travel and Tourism Government Affairs Council, business travelers accounted for 64 percent of all lodging industry revenues and 56 percent of all passenger miles flown on U.S. airlines in 1981, the last year for which complete figures are available.

Many airlines are offering special business classes with fares comparable to coach but with many more amenities. Delta Air Lines, like some competitors, has a frequent-flyer club that gives credit for miles flown. Members can receive first-class confirmed seats at the regular coach rate plus a mileage surcharge.

At the car rental counter, though, some of the giveaways are being scratched.

National Car Rental discontinued its premium giveaway program June 30, according to a spokeswoman, because, although market share increased initially, it declined as Hertz, Avis and Budget offered similar premiums.

Some hotel chains, like Westin Hotels, have directed specific advertising campaigns at business people. At the Westin Chicago, there is an "executive floor" of 175 rooms with bathrobes, complimentary shoe shines, express check-in and no-delay check-out at a private reception desk.

Of all the amenities that hotels are offering, perhaps the most revolutionary is the in-room personal computer. Quality Inns International says that every unit in its system will offer such computers within the next two years. The computers will allow guests to make airline reservations, scan stock quotations and job listings, and choose a restaurant.

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Congress' Own Special-Interest Groups

Caucuses have proliferated on Capitol Hill. They often provide forums for business people.

By John de Ferrari

PHOTO: UNIPHOTO

The Steel Caucus, whose members are congressmen with a strong interest in the steel industry, has held meetings with executives like David Roderick, board chairman of U.S. Steel.

PHOTO: U.S. STEEL

A GROUP OF CONGRESSMEN wanted to know why an American steel company was planning to buy unfinished steel from Britain. The company's president wanted to explain. A steelworkers' union leader wanted to complain.

How could all these people get together? Subcommittee hearings would be slow and ponderous, and many of the interested congressmen, who were not members of the subcommittee, would not be able to ask questions. Solution: a series of meetings organized by the Congressional Steel Caucus, made up of congressmen with a strong interest in the steel industry.

Caucuses have proliferated on Capitol Hill. There are more than 60, ranging from small, informal associations of like-minded members to large, highly organized groups with their own research and administrative staffs, paid from members' dues. (The congressmen pay those dues out of their official expense allowances.)

Currently 36 caucuses are officially recognized as "legislative service organizations" in the House of Representatives and are allowed to maintain offices in House buildings; in exchange for that privilege, they cannot accept any funding from outside sources, as many caucuses once did.

Caucuses are fewer and more informal in the Senate.

Some House caucuses are very active; a single issue, or cluster of issues, usually unites the members. Others are more research-oriented, with members who are loosely tied to each other by similar interests and constituencies. The single-issue caucuses in particular have come under increasing criticism on the ground that they are undermining traditional legislative processes.

The Steel Caucus, which has more than 120 members, is one of the most active single-issue caucuses. A coalition reflecting both business and labor concerns, the group promotes legislation to aid the steel industry in Congress and lobbies the Reagan administration as well. It has succeeded in getting several bills passed.

A similar group, the Congressional Auto Caucus, was created this year. The auto industry "was actively and openly involved in our membership drive," says Ron Smith, executive director of the caucus. Cofounders Elwood Hillis (R-Ind.) and Bob Traxler (D-Mich.) met with officials of the Motor Vehicle Manufacturers Association, which then sent a letter in support of the caucus to all members of the House. So far 52 congressmen have joined.

Smith views the caucus as a two-way street between industry and Congress. "If a particular issue comes up that a CEO wants to talk about, he can come to the Auto Caucus. We can arrange a meeting so that he can come in just to explain what he's doing or planning to do. This is exactly how it has worked out with the Steel Caucus."

Other caucuses have been formed for members interested in textiles, travel and tourism, space and exports.

PERHAPS THE most clublike of the caucuses is the House Wednesday Group, made up of 32 moderate Republicans, who are held together by temperament and ideology rather than a particular issue. The group came into existence in 1963 when liberal Republicans, who felt they were being ignored by their conservative peers, decided to band together.

Members, who have become more ideologically varied as time has passed, meet every Wednesday afternoon to exchange ideas and information. Each talks briefly about business in his or her committee so that all can stay abreast of current legislative activity. Members value these informal gatherings highly. "The most pleasant memory of Congress that I will have 20 years from now," Rep. Stewart B. McKinney (R-Conn.) says, "will be my membership in the Wednesday Group."

The Wednesday Group's fraternal atmosphere—new members must be elected by current members—tends to isolate it from outsiders. Yet when the group holds its annual retreat on a weekend in April, it is a rare chance for private sector representatives to address a captive legislative audience. This year, at a hotel in Delaware, 20 of the group's members devoted the weekend to hearing several leading executives speak about how the work force must change to match changes in the economy.

The first special-interest caucus was the New England Congressional Caucus, founded in 1973. New England

business leaders were instrumental in drafting the plan for the caucus, which they envisioned as a research-oriented center for Congress and the private sector to hold a dialogue on regional economic concerns.

Today the caucus monitors public sentiment and legislative action on several key issues: energy, the environment, job training and exports. The 25 New England congressmen, who are automatically members of the caucus, tend to consider the group one of the better sources of information and "informed judgment," according to one Hill staffer.

Larger and concentrating more on the federal budget is the Northeast-Midwest Congressional Coalition, which has a membership of 196. Laurence Zabar, the coalition's executive director, says one of its functions is to serve as an outreach agency for its members.

"The members get an opportunity to go out and talk to people they wouldn't ordinarily run into," Zabar says. "We can put together a field hearing that no individual member's staff or even a committee staff can put together." A recent example: a round table discussion on changes in the work place, held in Boston. Six experts told a panel of caucus members how Congress might address the problem of a changing job market.

Informal caucuses based on ideology or composed of a particular state's delegation have long existed and are considered part of the normal working apparatus of Congress. So are the official party caucuses, including the Democratic Study Group and the Republican Study Committee, which research issues and develop strong party positions on them. But the special-interest caucuses seem less legitimate to some members.

BECAUSE THEY pool the power and resources of congressmen with common interests, caucuses can sometimes seem like lobbies within Congress itself. Before new rules went into effect last year, the Travel and Tourism Caucus received hundreds of thousands of dollars annually from the travel industry to promote tourism legislation and awareness in Congress. Some members find this kind of activity embarrassing and inappropriate.

House Minority Leader Robert H. Michel (R-Ill.) says special-interest caucuses are "diffusing, denigrating and even in some cases destroying the legitimate constitutional functions of the House, its leadership and its committees." He sees caucuses splintering traditional power bases in Congress and vying with committees for influence.

In 1981 the House Administration Committee decide to tighten some of the reins on special-interest caucuses. The Administration Committee barred all outside funding of caucuses, if they wished to retain their official ties to the House, and required detailed annual reports from the officially recognized caucuses.

Caucuses reacted in various ways to the new rules. A few severed their official connections with the House; others set up separate, tax-exempt foundations that could continue to accept outside money. The Travel and Tourism Caucus tried to make up for the loss of outside funds by quadrupling members' dues and cutting back its staff and publications.

Despite the tighter controls, the idea of a caucus as an efficient communications tool remains appealing to many people both inside and outside Congress. Committee workloads continue to be enormous, so that the attention given to any particular issue is decreasing. Caucuses, an Auto Caucus staff member says, are cutting across boundaries and "filling in the gaps." □

A Roster of Caucuses

The House of Representatives has certified 36 caucuses as legislative service organizations; most are listed below, with the name of each caucus' chairman or other principal officer. Address mail for any caucus c/o U.S. House of Representatives, Washington, D.C. 20515.

Arms Control and Foreign Policy Caucus
Rep. Jim Leach

California Democratic Congressional Delegation
Rep. Don Edwards

Congressional Arts Caucus
Rep. Tom Downey

Congressional Auto [Industry] Caucus
Rep. Elwood Hillis

Congressional Black Caucus
Rep. Julian Dixon

Congressional Border [States] Caucus
Rep. Ronald Coleman

Congressional Caucus for Science and Technology
Rep. Mervyn Dymally

Congressional Caucus for Women's Issues
Rep. Patricia Schroeder

Congressional Clearinghouse on the Future
Rep. Albert Gore, Jr.

Congressional Hispanic Caucus
Rep. Robert Garcia

Congressional Human Rights Caucus
Rep. John H. Porter

Congressional Rural Caucus
Rep. Wes Watkins

Congressional Senior Citizens Caucus
Rep. Bill Lowery

Congressional Space Caucus
Rep. Daniel Akaka

Congressional Steel Caucus
Rep. John P. Murtha

Congressional Territorial [Issues] Caucus
Del. Ron de Lugo

Congressional Textile Caucus
Rep. Ed Jenkins

Congressional Travel and Tourism Caucus
Rep. Bill Boner

Democratic Study Group
Rep. Matthew McHugh

Environmental Study Conference
Rep. Howard Wolpe

Export Task Force
Rep. Don Bonker

Federal Government Service Task Force
Rep. Michael D. Barnes

House Wednesday Group
Rep. William F. Clinger

Long Island Congressional Caucus
Rep. Norman Lent

Military Reform Caucus
Rep. James Courter

New England Congressional Caucus
Rep. Edward P. Boland
Rep. Silvio Conte

New York State Congressional Delegation
Rep. Samuel S. Stratton

Northeast-Midwest Congressional Coalition
Rep. Frank Horton
Rep. Jim Oberstar

Pennsylvania Congressional Delegation Steering Committee
Rep. Joseph McDade

Republican Study Committee
Rep. Phil Crane

Sunbelt Council
Rep. Charles Wilson

The Tax Collector And the Family Loan

When parents lend money to children without charging interest, is a taxable gift involved ? IRS thinks so, and the Supreme Court will decide.

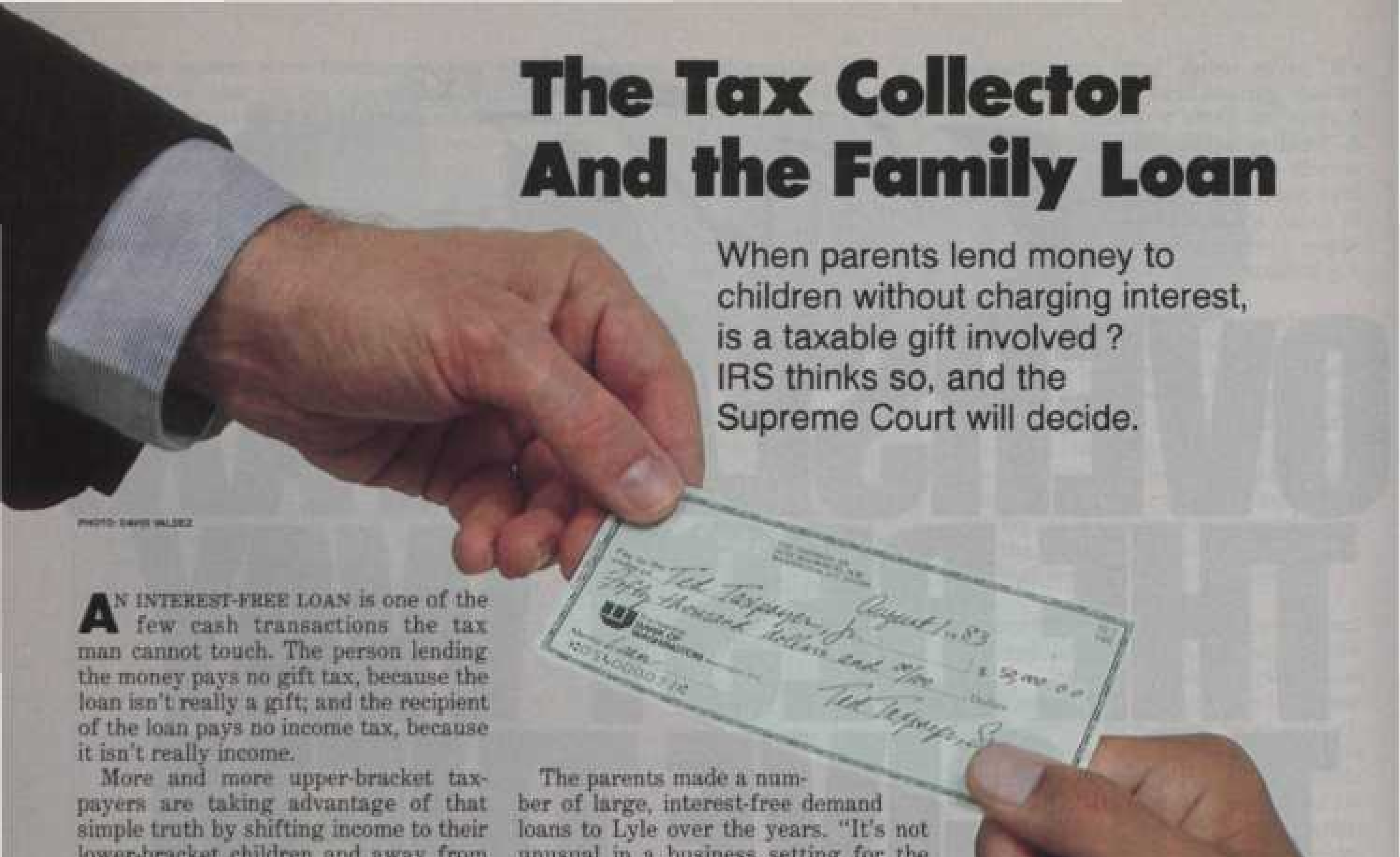

PHOTO: DAVID VALDEZ

AN INTEREST-FREE LOAN is one of the few cash transactions the tax man cannot touch. The person lending the money pays no gift tax, because the loan isn't really a gift; and the recipient of the loan pays no income tax, because it isn't really income.

More and more upper-bracket taxpayers are taking advantage of that simple truth by shifting income to their lower-bracket children and away from their own highly taxable estates.

Here's how that income shift works: If an upper-bracket father with a spare $1 million invests that money on his own, he can generate, say, $200,000 a year in income, half of which will go to Uncle Sam whether he lives or dies. But if he lends that $1 million to his lower-bracket son or daughter, then the child generates the income and it is taxed at a lower rate, creating as much as $50,000 more in "keepable" cash.

The Internal Revenue Service has for years been waging a courtroom battle aimed at taxing interest-free loans. In recent years it has won some victories, and now the Supreme Court has agreed to hear a case whose outcome could affect the way people pass on their businesses and other assets to their children.

"Properly done, an interest-free loan is a thing of beauty," says Walter H. Horsley, a Richmond tax lawyer who heads an American Bar Association task force looking at the issue. "It would be a great tragedy to see it discouraged."

The Supreme Court case, known as *Dickman v. Commissioner of Internal Revenue*, arises from a situation that is not atypical in family businesses, at least in successful ones. Paul and Esther Dickman built a prosperous agricultural and real estate business in rural Ruskin, Fla. Their Artesian Farms, Inc., operated a farm, a motel and a restaurant. Their son, Lyle, became an owner and, eventually, so did Lyle's wife and three children.

The parents made a number of large, interest-free demand loans to Lyle over the years. "It's not unusual in a business setting for the parents to lend money to their son to get him involved in the business," said the Dickmans' attorney, Frank P. Riggs.

Lyle made several partial repayments, but when he died and then his father died in 1976, more than $300,000 was still unpaid. The full outstanding amount of the loans was listed as part of the father's estate.

IRS decided to view the interest-free use of the money as a gift to the son, which the father should have paid taxes on. It slapped the father's estate with a notice of deficiency to the tune of $83,322. (The gift tax, first enacted to keep taxpayers from avoiding estate tax by giving money away during their lives, is paid by the donor, not the recipient, of the gift.)

IRS DID NOT REGARD the $300,000 as the gift—it agreed that amount was legitimately lent, with an expectation that it would be paid back. The gift, IRS said, was the "value of the use" of the money, since Lyle would have had to pay interest to obtain the loan elsewhere. IRS computed the "value of the use" by applying its own standard interest rates for underpayment of taxes in those years to the outstanding loan balances from 1971 to 1976.

"The statute says any transfer of property for less than full interest or consideration is subject to tax," says a government lawyer familiar with the case. "If you lend somebody money interest-free, the property you have given them is the right to use that money. The right to use the money has a measurable value, which is what you would have to pay someone to get that money somewhere else."

The Dickman estate sued IRS in the U.S. Tax Court, which agreed with the estate that an intrafamily loan did not constitute a taxable gift. IRS then appealed, even though it had lost on the issue before, most notably in the 1977 *Crown* case.

This time, though, IRS won. The U.S. Court of Appeals for the 11th circuit agreed that interest-free loans involve taxable gifts, setting the stage for the battle before the Supreme Court.

The resolution of the case may be a year off. Large law firms have weighed in with friend-of-the-court briefs written by the likes of Erwin Griswold, the former solicitor general, who has argued before the Supreme Court more often than any other living attorney.

Tax lawyers got another jolt in a related field when the U.S. Claims Court ruled that interest-free loans from a closely held corporation to its majority

shareholder resulted in taxable income to the borrower. The Court of Appeals for the Federal Circuit reversed that decision on May 11, citing a long line of cases in which courts have found that interest-free loans do not result in income. (See For Your Tax File, page 14.)

IRS may have a better shot at winning the gift tax case, some tax experts say. They often cite the words of a dissenting judge in the *Crown* decision who said, "It just ain't right" that interest-free loans escape all taxation.

That does not mean, however, that you will have to start worrying every time you lend your son or daughter a few thousand dollars for a mortgage down payment or an IRA account. The 1981 tax law adjusted the gift tax so that you can give a gift of up to $10,000 ($20,000 if a husband and wife join in a gift) to anyone in a calendar year without incurring a tax liability.

"You see a lot more $50,000 interest-free loans than $1 million interest-free loans, and an IRS victory in the *Dickman* case isn't going to have much impact on $50,000 loans," says Jere McGaffey, a Milwaukee tax lawyer, since the "value of the use" of that $50,000 would be under $10,000.

EVEN IF YOU GIVE more than $10,000, the excess is applied toward the lifetime exemption of $275,000. (The exemption was far lower in the years involved in the *Dickman* case; the lifetime exemption will rise in stages to $600,000 by 1987.)

The worry, however, is this: The lifetime exemption applies to the estate tax as well as the gift tax. If IRS wins the right to count the "value of the use" of interest-free loans as gifts, a wide range of comparable "gifts"—everything from loans of cash to letting your son use your Florida beach house for free in high season—might be applied against that exemption, exposing more of your estate to tax when you die.

As the government lawyer explains, "If you're rich and you use up your $275,000 credit during your lifetime with gifts, and then you die and leave a toaster to your son, the toaster gets taxed, probably at 50 percent."

IRS says it has already sought at least $5 million in back gift taxes from taxpayers in *Dickman*-type situations.

Much more is at stake if IRS wins, all agree. Says Horsley: "The impact will depend on how the decision is worded. If the language is so broad about transfer of property that it includes as taxable gifts any act of hospitality, then it would be tragic."

If the Dickmans win, however, then what Horsley describes as "a sweet way to shift income" will almost certainly gain more and more popularity—unless Congress steps in. □

—Tony Mauro

Rep. Elliott Levitas, a leading advocate of the legislative veto, has introduced a bill designed to conform to the Supreme Court ruling.

PHOTO: MANUEL GOMEZ

A Controversial Decision's Silver Lining

Business' regulatory reform efforts may actually be enhanced by the demise of the legislative veto concept.

By Tony Mauro

WHEN Chief Justice Warren Burger began reading aloud the majority decision he had written in a seemingly obscure deportation case, tourists in the Supreme Court's visitors' gallery that Thursday morning did not realize they were about to observe history being made.

After Burger finished reading the opinion in the case of *Immigration and Naturalization Service v. Chadha*, Justice Byron White broke with Court tradition by expressing his disagreement orally from the bench, rather than confining it to his written dissent.

"This is no ordinary case," White declared. "It is probably the most important case the Court has handed down in many years."

White's written opinion was even more forceful: "Today's decision strikes down in one fell swoop more laws enacted by Congress than the Court has cumulatively invalidated in its history."

Even Justice Lewis Powell, a Virginian noted for his reserve, said, "The breadth of this holding gives one pause."

What the justices did that day is still giving the nation's jurists, legislators, lawyers and political scientists plenty of pause. One expert on constitutional law said it could take Congress a decade to sort out the ruling's significance.

But it was clear from the outset that the decision would significantly change the balance of power between Congress and the President in ways that are important to the government's conduct of both domestic and national security affairs. The ruling has particularly strong application to federal regulation of business.

Specifically, the Court struck down the so-called legislative veto, a device by which Congress has retained the power to overrule actions of the executive branch—the President, cabinet departments and independent agencies—taken under broad grants of authority from the legislature. The legislative veto, first implemented 50 years ago and incorporated into laws with increasing frequency in recent years, results from the congressional perception that executive branch officials might go beyond congressional intent in using authority granted under various laws.

Even as the Supreme Court was striking down the legislative veto as conflicting with the Constitution's formula for legislative enactments, a move was under way in Congress to expand significantly the congressional power to overrule executive branch decisions. Congressional support for that expanded power stemmed in large measure from protests by business that overzealous federal regulators had far exceeded their authority in imposing new controls on the private sector.

Because it will take time to sort out the specific implications and impact of the Court's decision, business reaction thus far has been mixed.

"As in most situations like this, the business community has the most to lose in the short run," says Richard Leighton, a Washington lawyer specializing in corporate matters. "Everyone

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TONY MAURO *is the Supreme Court reporter for Gannett News Service.*

has to be very watchful and get their input in as Congress reacts."

On the other hand, Jeffrey Joseph, vice president for domestic policy at the U.S. Chamber of Commerce, says of the opinion: "This is not the disaster for business that many have made it out to be."

The decision, he says, may force Congress to deal head-on with the longstanding problem of bureaucratic abuses of power.

The Supreme Court decision thus may lead to even more effective congressional controls over the regulators than might have developed if the legislative veto had been upheld.

James Miller, chairman of the Federal Trade Commission and one of the Reagan administration's leading experts on government regulation, says that the Court's decision could force Congress to be more specific in delegating authority, and that "may be the silver lining of this decision."

THE "SILVER LINING" may be evidenced in several other significant ways. These are among the likely approaches in the congressional reaction to the legislative-veto decision:

- Use of the power of the purse to control regulatory agencies through the budget process, which determines how much money they get to operate and what it can be used for.
- Increasing reluctance on the part of Congress to make broad grants of power and greater concern over the fine print in such grants as are made.
- Incorporating into regulatory laws short-term "sunset" provisions for automatic termination of all or part of those laws, which would enable Congress to intervene relatively quickly if an agency went astray.
- Increased use of congressional oversight authority, through which the lawmakers conduct broad reviews to determine whether federal operations are being conducted in the manner envisioned by Congress when it authorized them.

Extensive litigation is expected on a fundamental question raised by the decision, that of "separability." In striking down the legislative veto, did the Court invalidate every provision of laws containing the veto mechanism, or did it strike down only those specific provisions relating to the legislative veto? There are already arguments on both sides, and new litigation has been initiated in search of an answer. Congress is proceeding, in the meantime, on the assumption that the overall laws, minus the veto provisions, remain valid.

The Supreme Court's ruling came in a case brought by Jagdish Rai Chadha, a native of Kenya. The Immigration and Naturalization Service allowed Chadha to remain in this country after his visa expired, but Congress, invoking a veto clause in an immigration law, overruled the INS decision. Facing deportation, Chadha challenged the veto in court and won.

In the Supreme Court's majority ruling, Burger hearkened back to the words of the Founding Fathers to justify doing away with what he called "a convenient shortcut" around the Constitution's system of checks and balances. In Burger's view, the legislative veto allowed one or both houses of Congress to take what was in essence a legislative action without going through the normal legislative process—passage by both houses followed by the signature or veto of the President.

The legislative veto, in short, cut the President out of the legislative loop.

"The records of the Constitutional Convention reveal that the requirement that all legislation be presented to the President before becoming law was uniformly accepted by the framers," Burger wrote. "The decision to provide the President with a limited and qualified power to nullify proposed legislation by veto was based on the profound conviction of the framers that the powers conferred on Congress were the powers to be most carefully circumscribed."

PHOTO: M. PHILIPPOT—SYGMA

When the Supreme Court ruled against the legislative veto, it cast a shadow over dozens of laws. Congress used the veto to give itself a voice in everything from troop deployment to energy prices.

Burger continued: "The choices we discern as having been made in the Constitutional Convention impose burdens on governmental processes that often seem clumsy, inefficient, even unworkable, but those hard choices were consciously made by men who had lived under a form of government that permitted arbitrary governmental acts to go unchecked."

Most of the congressmen and business people who favored the legislative veto over the decades did not think they were offending the memory of the Founding Fathers.

They saw the legislative veto as the best way to make regulatory agencies responsive to the public, through the public's elected representatives in Congress. Business groups who saw excess in regulations affecting everything from children's television advertising to the use of bleach could

ask Congress to call back those rules.

"This ruling is a victory for bureaucrats and a blow to taxpayers, who cannot vote those bureaucrats out of office," said Sen. Charles Grassley (R-Iowa).

Even in the executive branch, the legislative veto had its supporters among those who felt that a grant of leashed power from Congress was better than no power at all. Many of the laws that contain legislative veto provisions might never have passed without them—and they may not survive any statute-by-statute review Congress now undertakes.

Congress may become so stingy in delegating powers that the Supreme Court ruling could turn out to be "a hidden defeat for the imperial Presidency" rather than the victory it first seemed, according to Laurence Tribe, a Harvard University law professor.

THE LEGISLATIVE VETO will also be missed by many, including dissenting Justice White, who viewed it as a sometimes effective tool of political compromise and a way to share the responsibilities of government. Wrote White: "The history of the separation of powers is also a history of accommodation and practicality."

Professor Gerald Gunther of Stanford University said the Court's ruling was a "wooden, highly simplistic" interpretation of the separation of powers doctrine and failed to take into account the need for flexibility in relations between the two branches.

Even FTC Chairman Miller, whose agency sheds its legislative-veto leash as a result of the decision, says, "Some type of legislative veto was appropriate, we felt."

Congress started work swiftly, in the wake of the Supreme Court's ruling, to find a replacement for the legislative veto. Within days of the decision, Rep. Elliott Levitas (D-Ga.)—who once wanted to extend the legislative veto to all actions of all regulatory agencies—proposed adding a new version of the device to a funding bill for the Consumer Product Safety Commission.

Levitas proposed stripping the agency of all independent rulemaking power and forcing it to submit proposed rules to Congress in a form similar to legislation. Those rules would have to be approved by both houses of Congress and submitted to the President for signature before taking effect—a procedure meeting the requirements of the Court decision.

The Levitas approach was broadly attacked as a cumbersome system that could bog down an already overwhelmed Congress in minute detail and regulatory wrangling. Richard Leighton warns that, with Reagan appointees in the independent agencies, some regulations that would have to go before Congress under Levitas' system might actually be probusiness—and thus could be endangered by exposure to a more liberal Congress.

Miller, a Reagan appointee, agrees: "I'm concerned Congress might move in directions that are not appropriate."

AN ALTERNATIVE PROPOSAL on Consumer Product Safety Commission rules came from Rep. Henry Waxman (D-Calif.). His plan would allow regulations to take effect 90 days after approval by the commission unless Congress passed a resolution of disapproval. That resolution would also have to be submitted to, and signed by, the President—again, meeting the Court's requirement that the President be included in the legislative process.

Another, even more drastic solution to the problems created by the Court's ruling is under consideration in some congressional quarters: passage of a constitutional amendment that would allow legislative vetoes. □

The "Excess Capacity" Pitfall

UNUSED INDUSTRIAL capacity should not be used to justify large increases in the money supply, a private-sector economic unit warns. The Forecast Center of the U.S. Chamber of Commerce notes that in some quarters such an argument is being advanced to support the extent to which the money supply has grown recently.

Writing in the Forecast Center's latest *Economic Outlook*, Deputy Chief Economist Ronald Utt says the contention "ignores the fact that an expansive monetary policy has its impact in the future, not the immediate present."

With economic recovery now under way, he adds, "excess capacity will evaporate at a rapid pace as business expands production to meet the rising demand."

Late this year and early next year, Utt says, excess capacity will be significantly reduced "just at the time that the year-long spurt in money growth will be having its greatest impact on economic activity and when the twin risks of accelerating inflation and rising interest rates will be at their most severe."

The *Economic Outlook*, which includes a detailed statistical report on economic trends (see table below), shows that the Forecast Center's expectations for economic growth next year are rising. The center now anticipates a 6.2 percent increase in the gross national product, after accounting for inflation, compared with a 5.7 estimate in its report last spring.

Economic Outlook 1983–1985

(Percent change from previous period at seasonally adjusted annual rates unless otherwise noted.)

	Quarters								Years			
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982	1983	1984	1985
GROSS NATIONAL PRODUCT												
Real GNP	2.6	6.8	7.1	6.4	6.1	6.0	5.6	5.2	−1.7	3.2	6.2	5.0
Consumption	2.5	5.2	5.3	5.4	5.1	4.8	4.2	3.8	1.0	3.7	4.9	3.8
Residential investment	81.6	38.9	29.4	1.1	8.1	10.6	8.9	13.0	−10.2	35.9	11.6	12.9
Business fixed investment	3.8	2.2	2.3	10.6	9.8	9.8	9.7	9.6	−3.6	−0.7	8.5	9.7
Equipment	8.7	4.8	4.9	11.2	10.9	11.0	10.7	11.0	−6.4	0.6	9.8	10.9
Structures	−5.5	−3.6	−3.2	9.3	7.4	7.2	7.5	6.5	2.9	−3.4	5.6	6.8
Exports	0.3	−2.7	4.9	6.4	7.5	6.4	6.3	5.9	−6.5	−5.8	5.8	5.9
Imports	9.6	6.3	8.0	9.8	7.8	7.5	7.2	6.4	−0.2	0.9	7.9	6.6
Government purchases	−9.2	−3.0	6.9	1.9	1.7	3.7	3.2	4.8	1.5	0.8	2.8	3.3
Inventory change (In billions of dollars)	−36	−8	3	17	27	34	44	48	−24	−6	38	54
New car sales (In millions of units)	8.4	8.8	9.4	10.2	10.6	11.0	11.4	11.7	8.0	9.2	11.2	12.2
Housing starts (In millions of units)	1.7	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.1	1.7	1.8	2.0
EMPLOYMENT, WAGES AND PRICES												
Unemployment rate (In percent)	10.4	10.0	9.6	9.2	8.9	8.5	8.2	7.9	9.7	9.6	8.4	7.5
Compensation	6.0	6.1	5.1	5.5	7.2	6.2	6.3	6.3	7.3	5.9	6.2	6.6
Productivity	4.9	4.3	3.8	2.8	3.0	2.5	2.4	2.4	0.0	3.2	2.9	2.4
Unit labor costs	1.3	1.7	1.2	2.6	4.1	3.6	3.8	3.8	7.2	2.6	3.2	4.2
Consumer prices	−0.4	5.0	5.1	5.2	5.0	4.9	4.7	4.9	6.2	3.4	5.0	5.1
GNP Deflator (An index that adjusts GNP for inflation)	5.5	5.3	4.0	4.9	5.0	4.9	5.1	5.7	5.9	4.8	4.9	5.5
Prime interest rate (In percent)	10.9	10.5	10.5	10.6	10.4	10.0	9.8	9.5	14.9	10.6	9.9	8.9
CORPORATE PROFITS AFTER TAX (In billions of dollars)	120.9	137.2	150.4	152.8	158.3	168.6	175.0	182.2	103.1	140.3	171.0	194.9

SOURCE: U.S. Chamber of Commerce, Forecast Center

Making the Best Use Of Money and Manpower

Phillips Petroleum's William Douce has led a management restructuring that has guided other oil companies.

By Grover Heiman

THERE WAS a time, recalls William C. Douce, chairman and chief executive officer of Phillips Petroleum Company, when his firm ventured boldly into a new product line—and was bailed out by millions of undulating American youngsters.

In 1951 the oilmen in the Bartlesville, Okla., home office decided to plunge into an entirely new industry—the manufacture of chemicals and related products, plastics in particular. The company went straight from a small-scale prototype plant into mass production and converted oil people into chemical products salesmen.

As a result, Bill Douce, a young processing engineer, was transferred to New York City in 1955 to become district sales manager for plastics. Phillips was pushing Marlex, a tough, heat-resistant plastic that was inexpensive to make.

It was also hard to sell. Phillips had production problems that affected quality, color and specifications. Sales were slow—until the hula hoop craze swept the nation. The toy's manufacturers emptied Phillips' warehouses and booked the next six months of production. By the time the craze receded, Phillips' salesmen were selling the plastic to manufacturers of baby bottles and detergent bottles.

When Douce was summoned back to Bartlesville in 1959, as director of plastic sales, chemicals accounted for about a third of Phillips' profits. Chemical earnings kept climbing until they reached 42 percent. But in recent years, chemicals have accounted for only 15 percent of sales and 5 percent of earnings—the result of a calculated change of focus by the company. Today Phillips essentially has returned to its original role as a petroleum and natural gas producer.

It was Douce who led Phillips back toward its original path. "Our strategy," he says, "is to concentrate our money and manpower in those areas where we can be an effective competitor."

The company with the Phillips 66 logo—inspired by what once was the primary transcontinental highway, Route 66, which runs near Bartlesville—has assets of $13.1 billion. It is the nation's 18th largest industrial firm and the third largest west of the Mississippi River. Phillips' main activities are worldwide oil exploration and production, and refining and marketing in the United States. It is still a significant chemical producer, with sales offices in 23 foreign countries, and the nation's largest producer of natural gas liquids. Phillips also has interests in coal, oil shale, uranium and geothermal power.


PHOTOS: PHILLIPS PETROLEUM

Three years after Phillips was formed in booming Bartlesville in 1916, Bill Douce was born in Kingman, Kans. His father, a druggist, soon moved his family to Caldwell, another small town in the wheat belt, just north of the Kansas-Oklahoma line. There Bill Douce got his first exposure to sales and the world of work.

In his first job at his father's drugstore, he recalls, "I used to sit on a stool out front and serve the customers who would park at the curb for a soda. When I got a little older, my father promoted me to the inside. I learned to do everything—except fill prescriptions, of course."

When he was not in school, he says, his working hours were from 7 a.m. to 10 p.m., including Saturdays, Sundays and holidays. "Those were hard times, during the Depression."

By the time Douce graduated from high school, where he was an enthusiastic member of the debating team, he had decided to become a lawyer. But he heeded his father's advice to major in

an undergraduate subject that he could use to make a living, in case he ran out of money to get through law school. Douce enrolled in the chemical engineering program at the University of Kansas, graduating in 1941, and then entered the university's law school.

"My dad was right," he says. "I soon ran out of money."

World War II was under way by then. Douce was deferred from military service when he went to work at a Phillips refinery in Borger, Tex., that made critically important high-octane aviation gasoline.

The practice in those days was to start young engineers in the labor gang, and Bill Douce was put to digging ditches. After six months on construction projects he began moving around the plant, primarily into those units that processed crude oil into gasoline and fuel oil.

By V-J Day, Douce was on a slow train through Texas and Oklahoma, headed for Bartlesville to work as a supervisor in the processing department. He spent two years there, then went to work in the patent division.

AFTER MORE than a decade with Phillips, Douce was a prime candidate to move up when Phillips got into chemicals. The company, then as now, places a premium on loyalty, and management decided it would rather turn loyal oil people into chemical salesmen than try to convert outside chemical salesmen into loyal Phillips people.

When Douce was recalled to Bartlesville, he seemed destined to rise in the company hierarchy. By 1963 he was chairman of the chemicals department operating committee. The next step up was a vice presidency, and Bill Douce had such visions when he was called to the office of the president in June, 1966.

He got a jolt instead. The president wanted Douce to succeed the manager of the chemicals department, who reported to a vice president and was leaving. Douce was not elated. The shift had the earmarks of a lateral move—or maybe a move down. But the president was firm: "I want you to take the job."

Douce did, with the feeling that it was a dead end. Then, one Monday morning in January, 1969, he was called to the office of the chairman. He was stunned when the chairman told him that in a few minutes the board of directors was going to name Douce a senior vice president, recognizing his role in increasing the earnings of the chemicals department.

"Just like that," Douce says, "the coin turned over."

He had leapfrogged over a gaggle of vice presidents. He would eventually become the first chairman of Phillips who had not served as a vice president since the founder, Frank Phillips.

"I wasn't concerned about the other vice presidents," Douce says, "but I was concerned about my former boss. I had suddenly become his boss. But that worked out fine, and we became the best of friends."

Douce moved into the presidency when William F. Martin became chairman and CEO in 1974. He became CEO himself in 1980 and chairman in 1982.

Douce's rise at Phillips certainly was not hindered by his civic involvement. "I really like civic work," he says, and being a Phillips executive in Bartlesville gave him the opportunity. Phillips has given vast sums for civic purposes and has given of its people, too.

In its quest for oil worldwide, Phillips has developed a promising new field in the Republic of the Ivory Coast. Douce and Minister Gui-Dibo recently visited the site.

Over the years, Phillips employes have dominated the Bartlesville city commission; Bill Douce was one of those who served on it. That might have been enough for the average aspiring executive, but it was only a prelude for Douce, who served as president first of the Bartlesville Jaycees and then of the Oklahoma Jaycees, the Bartlesville Chamber of Commerce and the Oklahoma State Chamber of Commerce. Today he is a director of the U.S. Chamber of Commerce.

A former director of the Chemical Manufacturers' Association, Douce is now a director and member of the executive committee of the American Petroleum Institute, a director of the National Association of Manufacturers and a member of the Business Roundtable, the National Petroleum Council and the Council on Foreign Relations. He also participates in civic activities in the Bartlesville area and strongly supports medical and educational institutions.

Douce, a University of Tulsa trustee, has received awards from Tulsa and the University of Kansas.

Because of his heavy involvement at the national level, Douce is a familiar face in Washington. He takes every opportunity to promote acceptance of President Reagan's plan to decontrol natural gas.

"Basically, we feel it is time the government stopped twisting and distorting the natural gas market by imposing regulations on the producers," he says. "As we've seen in so many areas, no group of bureaucrats can work as quickly or as well as the open market."

The open market has not been kind to Phillips and other oil companies for the past two years. Heavily oriented toward production, Phillips has felt the impact of declining oil prices. Earnings in 1982 were down 27 percent from 1981, totaling $464 million on revenues of $15.9 billion. Major factors in the decline, in addition to the price drop, were higher exploration costs and lower production.

IN THE PAST 18 months the company has cut its work force 6,600, to 29,600, through attrition and the elimination of some operations; it has halted development of New Mexico uranium deposits and curtailed coal production. In the company's 1983 annual report, Douce advised: "To operate successfully in this uncertain environment, we intend to continue trimming less profit-

able activities and enlarging our petroleum resource base."

Phillips took a major step toward the latter goal last March, when it acquired General American Oil Company of Texas. This acquisition increased Phillips' production of domestic crude oil 16 percent and of domestic petroleum liquids 11 percent; its domestic reserves were enlarged by 31 percent.

A merger of the two firms had been discussed in the early 1970s, but, Douce says, "General American was not interested in being acquired, and we had no interest in pursuing the matter on an unfriendly basis." General American's management had a change of heart in 1982 when a takeover by Mesa Petroleum Company loomed.

The result, says Douce, was "a friendly transaction satisfactory to both companies and their stockholders."

Even though the acquisition of General American added to Phillips' already huge size, the company is far from unwieldy, thanks to a restructuring, from the top down, in which Douce was a major participant.

"We had more than a dozen departments, and they overlapped," he says. "There was synergism between them, and we wanted to take advantage of that. As an example, we had a refining department, a transportation department and a marketing department. They all handled refined petroleum products. So we put them all together and called it a group and put it under an executive vice president. On a worldwide basis."

Four other groups were formed: exploration and production, gas and gas liquids, minerals and chemicals. "We sent people out from Bartlesville to sit down and talk to our employes and explain why we were doing this—integrating our operations," Douce says. Since then other oil companies have restructured their operations along the same lines.

"Our people are not afraid to speak out and argue with us. We've got no use for people who just say yes."

DOUCE IS A strong believer in participatory management, and he wants the participation to be vigorous: "Our people are not afraid to speak out and argue with us. We've got no use for people who just say yes. But when the boss says we have all the input and we've talked all we're going to talk, that's when the arguing stops, and I shut the door and make the decision."

He laughs when he describes himself as a decision maker: "I'm not always right, but I'm never uncertain."

Douce believes that giving decision making authority to individuals is crucial; otherwise, participatory management becomes watered-down management by committee. He warned in a magazine article:

"Unless the leadership of business takes the initiative to encourage greater responsibility in decision making, we face the danger of turning the offices of middle managers into no more than comfort stations along the road to retirement."

Douce looks closely at Phillips' middle managers because of the company's record of promoting from within. His successors over the next several decades will face tough decisions and if, like Douce, they are poker players, that could be a plus.

Recalling Phillips' entry several years ago into a joint venture at Port Arguello, in offshore California waters, Douce says: "When you put $600 million up front for a lease—just to buy a seat at the poker table—you don't do that casually."

The gamble paid off. The Port Arguello field, discovered in 1981, is estimated to hold 300 million to 500 million barrels of crude, making it one of the largest crude oil discoveries since Prudhoe Bay in Alaska.

"But we made some decisions that weren't too smart," Douce admits. "We got into the Philippines, and that was wrong. And into some chemical businesses that we'd have been better off not getting into.

"We got into the fiber business—nylon and polyester—and didn't fully appreciate that that was a lot bigger poker game than we realized. We had to put up a great big stack of chips on the table, and when cotton didn't die, we had to get out, and our nose was bloodied. We underestimated the cotton boys, who made a cotton that was wrinkle resistant, almost as good as polyester."

Douce, who spends 50 to 75 percent of his time on the road, tries to mix vacations with those trips, but he is most content lounging around the pool at his home in Bartlesville, or bird hunting, his favorite sport.

His work day, when he is in Bartlesville, begins at 5:30 a.m. with a cup of coffee and a careful reading of the newspaper. Then, weather permitting, he swims for 45 minutes, has breakfast and gets to the office between 8 and 8:30. He gets home around 6 p.m. and rarely brings work with him. He and his wife, the former Willene Magruder, are avid readers and enjoy quiet evenings.

When he steps down as head of Phillips in a couple of years, at age 65, Douce plans to keep moderately busy. Whatever he gets into, it most likely will involve selling. "Maybe commercial real estate in Tulsa," he says. "Marketing is my true love."

He has no qualms about moving along, confident that, as he says with a smile, "the company will run without me. You know, it was there before I got there. It'll be there after I'm gone."

Emerging is a leaner, more efficient company that is geared for the future. That future, Bill Douce says, holds a flat demand for petroleum products over the next several years, and then a slower growth rate, compared with that of the past, for the following two decades.

"The oil industry itself will not be as profitable in the next 20 years as it has been in the past 20, but it's still going to be attractive," he says. "If I didn't think so, I'd start liquidating the company now." □

To order reprints of this article, see page 65.

Indonesia

Indonesia is a land of contrasts and high economic growth. Colorful puppets are used in Wayang Kulit (shadow theater), which is based on the centuries-old Hindu epic Ramayana (top right). Musicians entertain in a bustling village market (above). Tea, a key export, is harvested on a Javanese plantation (left). Thamrin Street, a major avenue in Jakarta, Indonesia's capital (top left).

A Growth Center of the Eighties

INDONESIA CELEBRATES its 38th anniversary as an independent nation on August 17. The nation gained independence in 1945 after 350 years of Dutch rule and 3½ years of Japanese occupation during World War II.

Indonesia is made up of over 13,000 islands stretching more than 3,200 miles in a crescent from the Asian mainland to New Guinea. The fifth most populous nation in the world, its population of 156 million inhabitants (1980) is exceeded only by the populations of China, India, the Soviet Union and the United States.

Each year the Inter-Governmental Group on Indonesia (IGGI), which represents major governments and international organizations, including the International Monetary Fund and the International Bank for Reconstruction and Development, meets to assess the performance of the Indonesian economy, examine its economic and social development prospects and discuss external aid requirements. All major participants of the 26th IGGI meeting, held this year in The Hague, Netherlands, expressed praise for the prompt, decisive manner in which the Indonesian government has dealt with the impact of the world recession.

According to the economic minister counselor of the Indonesian Embassy in Washington, the United States delegation "recognized and applauded" the "courage and foresight" of the Indonesian government for the firm measures taken to deal with the effects of falling oil revenues. In particular the government measures included a sharp reduction in petroleum, fertilizer and pesticide subsidies, a public sector wage freeze, regulations limiting nonessential expenditures, tightening of domestic credit, devaluation of the rupiah by 28 percent and rephasing of several major capital-intensive public sector projects. In addition, says the minister counselor, monetary measures were taken to accelerate the mobilization of private savings to finance economic development through a strengthened financial sector.

These steps should provide ample evidence to the international financial community and private investors of the stability and sensitivity of the Indonesian government in its effective response to rapidly changing world economic conditions.

According to the official press release on the IGGI meeting, the World Bank representative stated that Indonesia should aim at a growth rate for the non-oil economy of not less than 6 percent per annum for the second half of the decade. As a measure of the support and confidence of IGGI member countries, pledges of official development assistance exceeded the World Bank's recommendation of \$2 billion by more than \$200 million.

President Soeharto summed it up best

when in an address to the People's Consultative Assembly, Indonesia's highest legislative body, he said, "It is this economic resilience that enables us to weather economic difficulties and to make sharp adjustments to overcome those difficulties.

Five-year plans. Prior to the recession, Indonesia had one of the world's highest rates of economic growth. From 1970 to 1980, the gross domestic product grew at an annual rate of 7.6 percent, compared with 3 percent for the United States and 5 percent for Japan. Key to Indonesia's progress has been the adoption of five-year plans. The first five-year plan (Repelita I), which was completed in 1974, stressed the development of agricultural industries. The second (Repelita II), completed in 1979, focused on industries producing processed raw materials. The third (Repelita III), which will end next year, concentrates on industries producing manufactured goods. The fourth (Repelita IV), which will be announced by President Soeharto in his Independence Day address, will feature the development of heavy-machinery industries.

Of specific interest to medium- and small-sized American businesses and industries are the recently issued Project Proposals for 1983-84, which list high-priority, long-term public sector projects valued at a total foreign exchange cost of just under $13 billion for 19 sectors. The largest sector specifications are for power, transportation, telecommunications, agriculture and industry.

This list is presented for external financing by donor countries, agencies and international financial organizations. After financing has been obtained, the projects will be open for bidding and contracting by interested companies.

Exports/imports. The most important exports of Indonesia are petroleum and liquefied natural gas, accounting for 79.7 percent of the $22.3 billion total in 1981, followed by forestry products, rubber, coffee, tin, palm products, fish, nickel, copper and tea. Indonesia's primary trading partners are Japan, the United States and Singapore, with oil making up the bulk of exports to the United States.

In fiscal 1980–81, Indonesia's balance of payments was a positive $2.736 billion. The worldwide recession led to a negative balance of nearly $3 billion in 1981-82 and more than $6 billion in 1982-83. Improvement is anticipated in fiscal year 1984-85, as redressive government measures take effect. A positive sign is the Central Bank report that non-oil and gas commodity exports rose to $1.26 billion during the first four months of 1983, an increase of 3.2 percent over the same period of last year. The report was published in the June issue of National Development News.

The government is in the process of simplifying procedures for exporters and identifying for special consideration commodities expected to have a foreign exchange earning potential exceeding $10 million over the next five years.

Natural resources. Indonesia's resources have been a lure for centuries. The first successful oil well was drilled on Sumatra in 1883. Production increased to a peak of 615.1 million barrels in 1977. The nation's reserves exceed 50 billion barrels. In 1980 Indonesia ranked 12th among oil producers and 8th among OPEC members. In 1981 oil and gas exports amounted to $17.8 billion.

In 1980 Indonesia became the world's leading exporter of liquefied natural gas. Its 1980 crude oil equivalent of production was 186.7 million barrels. Japan is the leading importer of LNG. Another major foreign exchange earner—$1.06

billion in 1981—is the mining of minerals. The nation is the world's second largest producer of tin. Indonesia is rich in nickel, iron, copper, manganese and bauxite. Since 1970 production of minerals has increased 30 percent and accounted for 10.5 percent of gross domestic product in 1979.

Agriculture. Agriculture contributes about 30 percent of the nation's GDP and employs about two thirds of the labor force. About 12 percent of the land mass is under cultivation. Primary food crops are rice, corn, peanuts and soybeans. Indonesia is a major exporter of rubber, palm oil, tea and coffee. The nation ranks second, after Malaysia, as a producer of natural rubber and palm oil.

The nation is often called the Green Gold Mine of Southeast Asia. More than 60 percent of the land mass is covered with tropical forest. Forestry products rank after petroleum and natural gas as a source of foreign exchange. Major customers are Japan, Singapore, Taiwan and Italy.

A major feature of the five-year plans is transmigration—the moving of people from densely populated regions, such as Java, Madura, Bali and Lombok, to thinly populated areas, such as Sumatra, Sulawesi and Kalimantan, where they are allocated 12.5 acre farms.

Manufacturing. Indonesia, like many developing nations, is striving to broaden its industrial base by promoting the development of manufacturing industries with both domestic and foreign investment. Most of the manufacturing sector is involved in consumer goods production by private enterprises, focusing on food processing, beverages, tobacco products, textiles and electronics.

State-owned industrial enterprises, some operating in joint-venture arrangements with foreign firms, produce cement, fertilizer, petrochemicals and basic metal products.

Other important segments of the manufacturing sector are paper and pulp, automotive tires, pharmaceuticals, copper wire and cable, aluminum, shipbuilding and repair, plastics, ceramics, light bulbs and numerous handcrafted goods.

Tourism. It is expected that by the end of 1984 tourism will rank fourth as a source of foreign exchange. The Indonesian government has placed a high priority on attracting tourists to Indonesia. Tourists can now enter Indonesia and stay there for two months without a visa.

BNI 1946 Opens New York Agency

Bank Negara Indonesia 1946 is the leading bank in Indonesia in domestic and international business. Established in 1946 as the first state-owned commercial bank in Indonesia, it knows very well the intricacies of the country's banking system because it has been involved in its growth from the very beginning.

BNI 1946 offers full-fledged banking services with increased capabilities, improved skills and modern technology. With a worldwide network of correspondents and operations in financial centers like New York, Tokyo, Hong Kong, Singapore and Bahrain, BNI 1946 is the name business can count on. With 235 domestic branch offices located in every corner of the country, BNI 1946 reaches more village communities than any other commercial bank in the country.

With approximately 12,000 employes, who are being trained continuously to upgrade their skills, the best and most experienced bank will no doubt give the most efficient service, because it knows the local market and business conditions.

BNI 1946 will soon be operating as an agency in New York; for the past 12 years it has had a representative office there. BNI 1946 will know exactly how to serve the needs of banks or customers interested in developing business between the United States and Indonesia.

BNI 1946's growth continues, and this means more business opportunities. The wide range of activities—trade finance, project finance, money market management and foreign exchange transactions—will be among its main interests. Bank Negara Indonesia 1946 is a state-owned bank, with a commercial entrepreneurship.

Financial highlights as of March 31, 1983 (in million rupiah):

Total Assets	3,949,953
Total Deposits	3,742,391
Loans and Advances	2,478,646
Bill Receivables	59,015
Securities and Investments	1,142,975
Shareholders' Equity	207,562
Current Year's Profit	10,948


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In addition, the government has designated more airports and seaports as the first point of entry.

Foreign investment. Foreign investment has been a major factor in Indonesia's economic growth. From 1967 to 1982 foreign investment totaled $11.8 billion, covering 811 projects. The top five investors have been Japan, $4.34 billion (208 projects); Hong Kong, $1.2 billion (134 projects); Canada, $860 million (5 projects); United States, $670 million (73 projects); and the Netherlands, $550 million (43 projects).

Foreign direct investment is governed primarily by the Foreign Capital Investment Law of January, 1967, as amended in August, 1970. The Indonesian government welcomes foreign investment and provides maximum incentives for joint ventures in top-priority projects.

Joint ventures normally refer to collaboration between foreign and Indonesian investors, particularly with respect to equity participation. Priority projects are those identified by the Investment Coordinating Board as the ones that will most effectively advance the national development priorities.

Indonesia's Investment Coordinating Board—Badan Koordinasi Penanaman Modal (BKPM)—is a one-stop investment agency. The investor deals solely with BKPM (except for forestry and mining projects) for all approvals, licenses and permits required to establish or expand production facilities in the country and to receive financial incentives, grants and other incentives.

BKPM is represented in the United States in New York. Contact:

Risaldi Kasri, Director
Indonesian Investment Coordinating Board
420 Lexington Avenue
New York, N.Y. 10017
(212) 210-8860

Incentives for investors. Indonesia offers a wide range of incentives and guarantees to the foreign investor, particularly for those investing in priority areas, such as:

- **Tax holiday for priority projects.** Investors in priority industries qualify for a basic two-year exemption from corporation tax, which may be extended.
- **20 percent investment allowance.** An amount equivalent to 5 percent of paid-up capital may be exempted annually (up to four years) from taxable profits.
- **Dividend taxes.** Shareholders receiving dividends may be exempt from dividend tax for the period of the company's tax holiday.

"The Investment Coordinating Board (BKPM) has a mandate not only to foster domestic and foreign investment but also to assist foreign businesses in establishing profitable operations," says Risaldi Kasri, BKPM director in New York.

- **Accelerated depreciation.** Accelerated depreciation of fixed assets is allowed.
- **Additional tax incentives.** Additional capital investment incentives announced on Feb. 20, 1981, are designed to encourage investment in labor-intensive industries, in industries that generate large foreign exchange earnings from exports, and in industries that are located in areas in need of development and that consequently create new facilities and assume greater risks.

Investments meeting the government's criteria will obtain additional tax relief for up to 10 years.

- **Import duties exemption.** The entry into Indonesian territory of all fixed assets, such as machinery and equipment needed for the operation of the approved enterprise, may be exempt from import duties.

Top-priority fields—1983-84. Each year BKPM issues an investment priority list that categorizes selected investment fields according to three levels of priority. The first level or top-priority fields for 1983-84 are:

- **Agriculture.** Production and processing of food, crops, livestock, fisheries, plantations and forestry.
- **Manufacturing.** Electronics and electrical apparatus and components, telecommunications equipment, basic chemicals, pharmaceutical components, basic metal industries, machine tools, agricultural machinery, construction equipment machinery, shipbuilding, motor vehicle assembly and components.
- **Mining.** Precious metals and minerals, ferrous minerals, nonferrous minerals, coal, industrial minerals, mining construction services.
- **Energy.** Electrical power generation and transmission.
- **Road infrastructure.** Toll roads and toll bridges.
- **Tourism.** Hotel facilities.

Amcham Champions Economic Growth

The American business community in Indonesia is represented through the American Chamber of Commerce, Indonesia. Amcham Indonesia, with 355 members, is affiliated with the Chamber of Commerce of the United States of America, the Indonesian Chamber of Commerce and Industry (KADIN) and the Asia Pacific Council of American Chambers.

"We can make an ongoing contribution to Indonesia's drive for modernization," says Harvey Goldstein, president of Amcham. "As a nation in transition, Indonesia's needs will frequently change, and it is our challenge to remain responsive to those.

"The Indonesian government's commitment to the private sector is evident. Through KADIN, Amcham maintains strong links with all government agencies. We work closely with KADIN to identify Indonesian entrepreneurs as local partners for U.S. investors. As the pace of modernization quickens here, the contribution U.S. business can make will expand greatly, and the ongoing transfer of technology will be a key part."

Harvey Goldstein is president of Amcham Indonesia.

Goldstein, a long-time Indonesia resident and president of Resources Management International, Inc., adds:

"Despite the effects of the world recession, I believe the overall outlook for Indonesia and its economy is optimistic, as there is still tremendous untapped potential here. A timely and dynamic national development program is constantly being refined and goals are adjusted in accordance with prevailing conditions."

William Soeryadjaya is chairman of PT Astra International, Inc.

• **Housing.** Low-cost houses as well as apartments.

Investor viewpoints. Here is what two investors have to say about investment prospects in Indonesia:

Robert C. Mills, president and general manager of Mobil Oil Indonesia, Inc., observes that there are several reasons why Indonesia is a good place to invest. The nation is at a relatively early stage of maturity, and there is enormous potential for technical development toward which Mobil is contributing by training Indonesians at several levels of management and technical expertise.

In addition, Indonesia has had a remarkable record of political and economic stability. "The responsible manner in which President Soeharto's government has managed the earning of foreign exchange has now the unqualified respect of the American business community," Mills says.

William Soeryadjaya, chairman of PT Astra International, Inc., a major Indonesian holding company with subsidiaries in automotives, parts and components manufacturing, heavy equipment, farm machinery, office equipment, trading, agribusiness and wood-based industries, said in an interview with NATION'S BUSINESS:

"Now is the time for the American business people to come in and invest to make a profit, of course. . . . There is still plenty of room for the American businessman." □

Acknowledgements

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Photos were provided by the Ministry of Tourism, Jakarta, and the Investment Coordinating Board, New York.

Prompt Pay: Small Business Now Wants State Action

UNCLE SAM is earning a better reputation with small business by paying more of his bills on time. There is good reason for this improved performance: Under a new law, interest is due on the government's overdue bills.

During the first six months that the law was in force, government agencies paid interest totaling $518,000, according to the Office of Management and Budget.

"That's way below what anyone predicted," says Kenton Pattie, director of the Coalition for State Prompt Pay. "We thought it would be in the millions."

A coalition of 21 business associations led the campaign for passage by Congress of the Prompt Pay Act of 1982. Now that coalition has regrouped, with 23 members, as the Coalition for State Prompt Pay, to encourage passage of similar legislation by states.

Under the federal act, the government is supposed to pay contractors within 30 days of receiving an invoice. After 45 days, the government must pay interest on the amount of the bill, from the 31st day on. The interest rate is the current rate on five-year Treasury notes.

John J. Lordan, deputy associate director of finance and accounting for OMB, says that "there is a strong effort throughout government" to avoid interest penalties.

(OMB considers interest charges on late payments a waste of taxpayers' dollars—but it also frowns on early payment. OMB would like agencies to pay promptly at 30 days, no earlier and no later.)

Although the payment process has been vastly improved, some agencies still are not meeting the requirements of the act, which took effect last October 1.

One business told Pattie that payment of a bill for $97 was 212 days overdue from the Department of Health and Human Services. Other examples of bills not paid on time: Treasury Department, 242 days late on a bill for $38; Postal Service, 113 days, on a bill for $781; and the Central Intelligence Agency, 78 days, on one for $79.

"From the reports I've received," Pattie says, "the Defense Department is the worst offender." The Pentagon had to pay more than $300,000 in interest on overdue bills—more than half the government-wide total—during the first six months under the act.

Thanks to a new law, Washington is paying its bills faster, and a drive is on to get states to do likewise.

Pattie says the Navy in particular has generated complaints, with small businesses citing a number of bills more than 500 days overdue and several more than 800 days overdue. OMB has written to the Defense Department about the Navy problems.

One agency created problems for itself by not starting the 30-day count until an invoice had traveled through a number of offices and arrived at the finance center. OMB has corrected that misunderstanding.

Pattie says, however, that some federal agencies' performances have been better than expected, and some have been outstanding—even some within the Defense Department.

For example, when Navy Captain Gerald Langer arrived in 1981 to take over the Defense Contract Agency's Philadelphia regional office, which spends $4 billion a year, he found that 40 percent of the bills were being paid late. Langer has that overdue total down to 5 percent; since the Prompt Pay Act went into effect, his office has had to pay only several hundred dollars in interest on overdue bills.

The Prompt Pay Act, Pattie says, has proven that without interest penalties the federal customer has no incentive to respond to complaints about overdue bills, although the Reagan administration and previous administrations have pushed for prompt payment.

At the time the federal law was passed, 14 states—Alaska, Arizona, Arkansas, California, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Michigan, North Carolina, Oregon, South Carolina and Washington—had some form of prompt pay act.

Since then, such legislation has been enacted by 12 more states—Colorado, Delaware, Indiana, Iowa, Maryland, Montana, Nevada, Oklahoma, Pennsylvania, Rhode Island, Utah and Wyoming.

A MAJOR TARGET of the State Prompt Pay Coalition is the District of Columbia, which Pattie calls one of the country's most sluggish bill payers. Among examples he cites: a $5,277 bill for rental of a truck by the University of the District of Columbia was 947 days overdue on May 20. (The bill has since been paid.)

The coalition sees passage of a prompt pay act by the District as setting the stage for a third thrust, at city and county governments and school districts. "Small businesses report that they have been forced to put hundreds of cities and school districts on 'credit hold,' with cash on delivery required for every purchase," the coalition says.

But for the time being, the coalition is urging small business to keep the spotlight on state governments, to encourage them to pass laws establishing payment standards for all state institutions, including hospitals and universities, and to apply those laws whenever state funds are expended by local governments.

Supporters of prompt payment bills see the issue as fairness. Says Alabama state Senator Bill Cabannis, sponsor of one bill: "I don't think that requiring payment in 45 days is a harsh requirement." □

—Grover Heiman

PHOTO: INT'L COMMUNICATIONS INDUSTRIES ASSN.

Kenton Pattie heads the campaign to extend prompt-payment rules to governments below the federal level.

When Managers Become Owners

The leveraged buyout turns executives into owners of their companies.

IN THE LATE 1970s, Allied Chemical acquired Eltra Corporation, a $1.5 billion conglomerate strong on industrial and electrical products. Its operating units also included Converse athletic footwear, and Allied took a hard look at that company.

Converse was a consumer business, and the new parent had not been active in that field. Converse's annual sales of less than $200 million did not impress Allied, which decided to sell the company. But instead of being sold to outsiders, Converse was taken over by old acquaintances—its own management team—through a growing practice in American finance, the leveraged buyout.

In a leveraged buyout, those buying a company put down a very small amount of cash and borrow the rest. They use the company—which typically is almost debt-free—as collateral. In Converse's case, the purchase price was $100 million. The 55 investors—36 of them management members—put down $10 million, which went into common stock. Two banks, Manufacturers Hanover and Morgan Guaranty Trust, supplied $70 million, and Allied retained a $20 million share.

Management buyouts are rapidly becoming a trend. Their number last year rose to 115 from 83 in 1981 and 47 in 1980.

Why the growing allure? The prime attraction is the prospect of quick returns to the initial investors. "In 1982, its first year of operation, Converse earned about $7 million and didn't pay a dividend," explains Carl Ferenbach, a manager with Merrill Lynch White Weld Capital Markets, an investment banking firm that lends to, invests in and manages buyout transactions. Those who put up the $10 million suddenly had an investment worth $17 million, a 70 percent growth spurt.

Since management owners are usually eager to expand their companies' lines, many leveraged buyout firms eventually go public. Converse did so last May, notes its chairman, Richard Loynd, to support more aggressive campaigns in its footwear line, expand into the casual clothing field and enter international markets.

"Our debt position is solid now," Loynd says. "We've paid off our initial investment, and I hope that by the end of this year our debt will be only half of our shareholder equity. When we started out, it was better than 400 percent of shareholder equity."

Leveraged buyouts offer other enticements. There is the chance for operating management to take control and implement changes previous owners may have vetoed. Buyouts can mean the "revitalization of a chief executive into a mature entrepreneur," says Leonard Shaykin, managing general partner of Adler and Shaykin, a New York investment partnership.

How can you tell if a company is a candidate for a leveraged buyout? Here are some guidelines:

PHOTO: DAVID VALDEZ

Converse Chairman Richard Loynd holds silvered sneaker, memento of leveraged buyout of company.

- It is a solid but not a fast-growth business.
- It has little or no debt, because it is not growing fast and has no need for tremendous amounts of capital.
- It has neither a large inventory nor a need to finance customer purchases and thus has cash reserves.

Another indispensable ingredient is having a management team dedicated to doing whatever is necessary to get the company on an upward track quickly, because, according to Loynd, "any economic bumps will wipe your equity right out."

LEVERAGED BUYOUTS are no snap. The process is fraught with human drama; in most cases, life savings are invested, second mortgages placed on homes.

Financing can be a big hurdle. The most favorable interest rates must be found, and intense negotiations are usually needed to determine how much of the company the buyers will have to give up to the lenders to secure financing. And there is always the possibility of rejection; lenders may think that the purchase price is too high.

If financing is approved, complex negotiations follow, to fix the rights and responsibilities of each party. And the new owners must accept restrictions and loss of flexibility. Lenders will always insist that the company have a certain amount of working capital on hand, maintain a specific level of net worth, not sell any assets and never spend more than a set amount every year.

Experts on leveraged buyouts maintain that too many people involved in such transactions do not know what they are getting into. Managers at a firm supplying the automotive industry arranged a buyout just before the industry nose-dived in 1981. The company barely survived the drain of interest payments on the buyout loan.

"Leveraged buyouts present a tantalizing picture," says Loynd. "They are a way to make a heck of a lot of money fast if they work and to lose your shirt if they don't." □

—Mary-Margaret Wantuck

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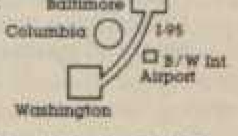

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How To Thwart Computer Criminals

ILLUSTRATIONS: WILLIAM COULTER

Sophisticated machines have become targets of sophisticated crooks, but your firm can protect itself.

By Stanley Halper

PEOPLE CHUCKLED when they read about the four 13-year-olds at a New York private school who based a crime caper on knowledge gained in a computer instruction program. The youngsters plugged into a computer network used by a number of companies, including a soda pop maker, and tried to divert cases of pop to their doorstep. Before they were caught, still popless, they had managed to get into confidential files of another company.

Really, though, computer crime is no laughing matter. The youngsters had no yen for trade secrets—but they obtained access to them. Nor were the youngsters after money—but they might well have been able to steal some through the computer.

Security for computer systems has become one of the most serious problems facing business today. The sophistication of computer thievery has grown as rapidly as the sophistication of the machines themselves, and it has become difficult for managers to comprehend all of the precautions necessary to protect businesses from fraud and theft. Yet these precautions have never been more important.

Estimates of how well computer crime pays range from $100 million to $300 million a year. The average take in a reported crime is $500,000—much more than the $23,500 the typical embezzler steals without the computer's help. But few computer crimes are detected and reported to authorities, and according to one estimate, only one of 33 reported crimes results in a conviction.

When record keeping was done by hand, access to records could be more easily controlled. Managers understood all the material in the files and could easily check for tampering. Now, with computerized data, we see the same kinds of criminals, committing the same kinds of crimes, but using the speed and power of the computer. Stealing may even be a little easier now because many owners and managers cannot judge the need for control systems to protect their new business tools, or determine how effective those systems are.

Computer fraud can take many forms. Today's criminal can steal mon-

STANLEY HALPER *is national director of the Computer Audit Assistance Group at Coopers & Lybrand, one of the nation's largest accounting firms.*

ey simply by ordering payments to a dummy corporation for shipments never made. He needs no ski mask to alter inventories so that stolen material will not be immediately missed. The thoroughly modern bank robber moves sums from dormant accounts to his own at the touch of a button.

Theft of information is equally serious and damaging. All companies have valuable trade information—customer lists, plans for the future, production techniques or distribution methods—that cannot be effectively protected by patent or copyright.

A few examples of computer fraud will illustrate some of the methods used:

• In a large mail-order operation, data processing employes had easy access to a significant company asset—the mailing list. Workers copied the tape files and sold the list. Their activity was recorded on a computer log, but since the information was not regularly reviewed, the fraud went undetected for some time.

• Unhappy about mandatory reductions in the work force, computer personnel of a government agency made unauthorized changes in the computer programs so that payroll checks continued to be sent to some of the terminated employes.

• With just a terminal and some programs, an outsider opened a utility company's computerized inventory files and ordered parts shipped to a specific location. As the goods arrived, he sold them. Per his instructions to the computer, he was not billed.

The thefts described above could have been prevented; at the very least, they could have been discovered sooner. The fault lies with management, which needs more education in computer safeguards.

With such golden opportunities for computer fraud, the question may well be asked, "Should we get rid of the computer?" The answer is an unqualified no. It has become too important a tool for too many companies, large and small. Besides, methods to protect information are readily available. There is a price tag, but it is lower than the potential losses to theft and embezzlement.

Prevention of computer fraud requires scrutiny of both personnel and equipment.

Although most employes are honest, temptation can become overwhelming if control over the elements necessary to computer fraud—data files, program library, computer and assets—is vested in one employe.

Dividing access to these four elements among various employes means the workers must conspire to attempt fraud. Having to enter other elements illegally or gain the cooperation of another employe increases the possibility of detection and is therefore a deterrent.

Only the owner or a manager should have entry to all four elements—and that individual should understand the entire operation. He can keep a continual check on the operation to see whether any unauthorized actions have taken place. Just knowing that the system is checked frequently will deter potential abusers.

THE SMALLER THE firm, the more difficult it is to institute safeguards—and the fewer the resources available for an adequate program. However, even large firms sometimes do not take steps to ensure separation of computer duties.

In such situations, controlling computer fraud by installing safeguards in the equipment itself takes on added importance. Through the use of software and systems, unauthorized entry to the computer can be detected or prevented. An entire industry now provides software to protect data and detect illegal access.

One key step is determining who should have access to what information and then classifying the data accordingly. Passwords (coded keys allowing entry to the various levels of information) should be set up and carefully guarded. The software should log entry to sensitive information and note where the password came from, at what time and what material was called for. That record of unauthorized requests for sensitive data should be available to the head of the department and to security people.

Knowing when someone is attempting to reach information for dishonest purposes is important. If someone tries once, there may be a second attempt. Fortunately, there is sophisticated software available that can facilitate detection of the culprit.

What if, despite other precautions, someone does gain unauthorized entry? Encryption can make the information unintelligible. Stored data are encoded, and only the proper decoder will put the data in a meaningful form. The time that an authorized user loses in unscrambling the data is negligible—what required two seconds may now take four seconds.

Effective in foiling fraud by an outsider, encryption can also be useful internally if managers translate into a code sensitive portions of their material and limit access to the decoder.

Dividing responsibilities and using equipment controls are not alternative methods of protection. They are complementary. Even the best control system and the most sophisticated software will not work unless the computer is monitored carefully and frequently. That task should fall to the level of management that is independent of operations.

Complete protection against a disloyal insider who developed a program is difficult, but it is possible to catch the other insiders promptly and prevent outsiders from getting in.

Do not misunderstand: Computer fraud is not rampant. That there is not more computer crime testifies to individuals' basic honesty as well as to the data processing industry's efforts to develop safeguards.

But possibility of fraud exists, just as it existed when information was stored on paper and locked in "safe" places. It is management's responsibility to take precautions by making illicit entry difficult and establishing methods to detect computer criminals. □

To order reprints of this article, see page 65.

Business in the Classroom... Working Today To Keep America Working

WHERE is the American work force of tomorrow? In today's classrooms.

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Where I Stand

1. Health Insurance: Is a Cap Fitting?

In a move aimed at raising revenues and—possibly—helping to hold down health costs eventually, the administration has proposed putting a cap on the amount of employer health insurance contributions that can be excluded from an employe's income.

Contributions of more than $840 a year for an individual and $2,100 for a family would be treated as income taxable to the employe.

The administration says that about 30 percent of those with job-related insurance would be affected and that they would pay $2.3 billion in extra taxes the first year. As a result, the administration says, they would become more conscious of the true cost of health care.

Many in business oppose the idea. Less, not more, taxation is needed, they say, and this type of taxation is particularly flawed. They say it would discriminate against employes whose insurance rates are unusually high because of nature of area, type of occupation or average age of work force. And, they say, it might cause some health benefits to be dropped.

Should employes be taxed on some employer-paid health premiums?

2. Restrict Right To Close Plants?

Legislation is being considered in Congress that would severely inhibit companies from moving a plant or simply shutting it down.

A company closing a plant would have to pay benefits and at least 85 percent of wages for a year to certain employes who lose jobs. And it would have to reimburse the local community for most of a year's lost taxes.

Also, the firm would be handicapped competitively by requirements that it reveal a planned closing well in advance and that it make data about its operations public.

The measure is needed to protect jobs, labor unions say. It also draws support from some local officials who fear loss of tax revenue.

Opponents of the legislation say it would bring unwarranted intrusion into private decisions and in the long run could eliminate, rather than save, jobs. They note that marginal firms, with no choice but to shoulder costs imposed by the legislation, could be forced over the brink.

In other cases, they say, expansion would be curbed.

Should government penalize companies for plant closings?

3. Stop Voting On Debt Ceiling?

In 1917 Congress for the first time set an overall limit on the public debt. It was $11.5 billion.

Since those World War I days, the debt ceiling has been raised scores of times. This spring it went to $1.4 trillion from the $1.1 trillion of a year before.

Some say the process in which the Senate periodically votes on a ceiling bill is a time-consuming charade. (The House in 1979 ended debt limit votes as such, incorporating limits in annual budget resolutions.)

Everyone, it is argued by opponents of a vote, knows the bill will pass because if the debt level does not rise, there will be panic and hardship, as federal creditors and employes and Social Security beneficiaries go unpaid.

On the other hand, it is argued by supporters of a vote that setting a ceiling through legislation serves the useful purpose of making senators face up to the amount of spending they approve. And it is recalled that once, in 1953, an administration's request for a new ceiling was not passed, but the government did not collapse; it became more frugal.

Should the Senate abandon its votes on debt ceilings?

You can now respond quickly to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Workers' Comp, Health, Home Work Issues

In June the monthly Where I Stand poll asked these questions: Should the workers' compensation system be federalized? Should employers have to finance health insurance for the jobless? Should the ban on work at home for profit be lifted? There were more than 600 answers. Appropriate government decision makers will be informed of the poll's results.

On the first question, 94.5 percent of those responding opposed the idea of federalizing the existing system of state programs that require employer payments in cases of job-related injuries or ailments. Federalization could lead to employers' paying as much as $525 a week in workers' comp cases. Only 1.7 percent favored federalization. The others were undecided.

An even 92 percent opposed proposals to require employer action extending health insurance for the jobless. Bills now before Congress would require that laid-off workers be carried in employer insurance plans for three months or more. Three percent favored the proposals.

Ending a 40-year-old prohibition on piecework at home in six garment-making industries was favored by 92.7 percent and opposed by 4.7 percent. The Labor Department regulations have been attacked by business as a union ploy to protect high-cost jobs and provide more sources of union dues.

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"Made in Alaska" Instead of Taiwan

William C. Lee, 35, of Anchorage, Alaska, dares to think differently about his state and its future. He believes that the time has come for the 49th state to become a manufacturing center instead of just a source of raw materials. Its position astride the shortest air routes from the United States to the Far East and Europe makes Alaska an ideal location for shipping raw materials in and finished products out, Lee says. Putting his money and his energies where his mouth is, he has established Northern Horizons, Inc., and begun making unique giftware for sale to tourists in Alaska and Hawaii. Soon his products will be sold in Japan.

Lee lost a job selling sealskins for a fur company 11 years ago after a federal law was passed that prohibited white persons from engaging in this age-old business of Alaskan natives.

"I suddenly perceived the need for a job," he says wryly. "But I wanted to get into something that had promise for growth and would fill some kind of void." While traveling around the state, he had been impressed by the number of tourists who wanted to buy souvenirs made in Alaska by Alaskans. Most of what was available came from Japan, Taiwan, Hong Kong or Korea.

"The craftwork of our natives was never allowed to flourish except to provide models for workers in other countries to copy in plastic, mass produce and sell to our tourists," Lee says. "It made me sad and angry. Retailers didn't want to sell items not made in Alaska, and the natives couldn't make their craftwork in sufficient quantities. I wanted to see what I could do about it."

Lee contacted a number of Anchorage businesses and talked up the idea of establishing small manufacturing enterprises in Alaskan towns and villages where labor was plentiful. But he found little interest in the idea. He offers an explanation for the indifference:

"We have an educated work force that is motivated and available, especially here in Anchorage. When the oil pipeline was completed, the winter unemployment rate leaped to 25 percent, as it always did in pre-boom days. So finding workers is not the problem. It is overcoming a state of mind that Alaska cannot become a source of manufactured goods."

With the help of a Small Business Administration loan, Lee bought a struggling company making polyurethane totem poles in 1972 and added Eskimo dolls to the product line. Wooden models were carved by native craftsmen; rubber molds were made and polyurethane copies produced. Miniature fur parkas made of rabbit and oth-

They Revolutionized A Vacation Industry

Nine years ago, Jon and Christel DeHaan set out to create a market for an unusual new service called "vacation exchange." Today the Indianapolis couple have four companies, more than 280,000 individual clients, and some 800 affiliated resorts in 32 countries and expect revenues of $17 million this year. The DeHaans not only created the market they were after but, in doing so, they revolutionized a parallel industry, resort time-sharing.

Their flagship company is Resort Condominiums International, the world's oldest and largest vacation exchange network. Before RCI was founded in 1974, time-sharing—or "vacation ownership," as the DeHaans prefer to call it—had taken root in Europe and Japan and was just beginning to appear in North America. It involved buying a furnished condominium in a given resort for a designated number of weeks every year, an option for families unable to afford a second home or skyrocketing hotel prices.

"Basically, the person is owning his vacation home and trying to hedge against inflation," explains Jon DeHaan.

Christel and Jon DeHaan say that their strategy of promoting the resort time-sharing industry helped them realize success in their own vacation-exchange business.

The DeHaans saw a partial answer to the need for affordable vacations in the infant time-sharing industry. But they also saw a major drawback: Many people resisted buying part-ownership of a condominium because they did not want to vacation at the same place at the same time every year.

To overcome that objection, Jon and Christel—he with leisure-time expertise drawn from previous positions with Walt Disney Productions and Ramada Inns and she with quality control experience at RCA—started RCI and introduced vacation exchange.

Using a sophisticated computer system, the firm enables time-share purchasers at RCI-affiliated resorts to trade their space and time for comparable accommodations at other resorts around the world.

It was a turning point for the time

Pride in Alaska helped William C. Lee (left) win this year's Small Business Administration award for his state. Here he is congratulated by SBA Administrator James C. Sanders.

KIANA of Alaska

er animal skin scraps were stapled on.

"The dolls were made from start to finish in Alaska by Alaskans," Lee says with obvious pride. He traveled all over the state and took orders from 200 retail outlets for the "Kiana" dolls (he took the name from a native family name he saw in a phone book). Retailers were pleased to have items that were "Made in Alaska."

In a quest for new markets and new products, Lee began selling a family of Eskimo dolls, labeled "collectibles." ("If you have one doll, you won't be satisfied unless you collect the whole family.") The idea caught on. Tourists liked the Kiana collectibles and so did Alaskan families. Orders increased, and Lee moved into larger facilities with 15 to 20 workers.

The SBA loan was paid off in five years. To keep growing, Lee traveled to Hawaii to test a hunch. He felt that Alaska-made giftware could be sold there if it represented the Hawaiian culture. He introduced the "Tiki" family of dolls to a number of gift outlets in the islands. A new market for Alaskan products was born and is flourishing.

Seeking yet another product line, the restless entrepreneur visited plastic and chemical firms in the "lower 48" to study various processes. Refining one of them, he now combines marble dust and other materials into a slurry that is poured into molds of scenes designed by Alaskan artists. The resulting thin slabs look like etched marble and are turned into plaques, desk ornaments, clocks and other souvenirs.

Lee's sales totaled $1 million last year. He is now pursuing sales of dolls in Japan, following a hunch similar to the one that paid off in Hawaii.

The time-consuming task of building

sharing industry, recalls a spokesman for the National TimeSharing Council in Washington, because it meant developers could market exchanges as well as time-shares. The new service was a significant factor in time-sharing's growth from sales of $50 million a year in 1975 to $1.5 billion last year.

The DeHaans spent much of their time educating builders and developers about vacation ownership. Time-share properties once were mostly properties that had been conventional condominiums and hotels, but now the trend is toward "purpose-built" developments—that is, resorts specifically designed for time-sharing.

"We were the catalysts and propellants of the time-sharing industry," Christel says, "because it was the industry most conducive to our service. Had it not been for the exchange feature, time-sharing would have never grown to the size and scope that it has today. Likewise, we would not have grown as much as we have if it had not been for the acceptability of the time-share concept. So each industry can thank the other for success."

RCI does not own or sell any condominiums; it simply provides the exchange service. Resorts must meet specific criteria to affiliate—the firm inspects each resort to ensure that it is structurally sound, attractively designed and well managed. Affiliates pay an annual fee of $6,300 to RCI and must sign up their buyers as RCI "subscribing members." Each member pays RCI $62 for two years, plus $48 for each week of exchange. And if a member cannot take a vacation one year, he can "deposit" his time in RCI's "Spacebank" and use it later.

When the DeHaans began, they ran the business out of their home, using a shoebox to hold vacation exchange requests. Total revenues the first year were $16,000. Now they have more than 300 employes and offices in Fort Lauderdale, Fla.; Newport Beach, Calif.; Monte Carlo; London; Mexico City; Sydney; and Nagoya, Japan.

Anticipating stiffer competition from the big hotel chains, the DeHaans established a second exchange company, Vacation Horizons International, in 1981. VHI offers its affiliates a cooperative marketing program to help put them on an equal footing with the hotel chains.

Jon is president of RCI and Christel heads VHI, which with 140 affiliates is already the country's third largest exchange firm—after RCI and Interval International in Miami.

In addition to the exchange companies, the DeHaans set up Endless Vacation Travel, which handles travel arrangements for people going to the resorts. And there is a holding company, Endless Vacation Corporation.

Did any special ingredients contribute to their success? Jon singles out two: Identifying an unmet need and concentrating resources on a limited segment of the market so they could become very good at it. "We've tried to do what we do better than anybody else in the world," he says.

Understanding the contributions of employes and reinvesting heavily in the company are important, too, adds Christel, who is from West Germany. Spending more than $5 million on computerization in the last three years, she says, has enabled the DeHaans to handle their firms' tremendous growth. (They expect to have 75,000 families traveling through their program this year, compared with 2,600 in 1977.)

Believing in the product is also essential, the DeHaans say. And obviously they believe in theirs. Early this summer, Christel, Jon and two of their three children were headed for Cranberry, a resort near Toronto, on a vacation exchange.

RCI's logo symbolizes the possibility of swapping vacations around the world.

RCI
Resort Condominiums International

his own business did not deter Lee from his self-appointed role of promoting Alaska as a new source of manufactured products. "Previous state administrations encouraged the idea that Alaska should remain a warehouse for American raw materials," he says.

"Things are different now. The current administration wants to encourage manufacturing and an orderly development of industry that is not dependent on oil with its ups and downs of price." He adds: "Labor is our best resource now, and manufacturing is the key to our growth over the next 10 years."

Named this year's Small Business Person of the Year for Alaska by SBA, Lee, a North Carolina native, has become a cofounder of the Alaska Manufacturers Association. Member firms include makers of paint, hovercraft, oil field equipment, candy, jellies and other food products.

Says Lee: "I'm convinced that Alaska-based industries can compete anywhere in the world if entrepreneurs keep an eye on their costs and take advantage of our location at the air crossroads of the world."

Renting "Wrecks" With Snob Appeal

Schopenhauer, Descartes, Plato ... move over and make room for Schwartz. David Schwartz, that is—the philosopher of the used car lot. And, incidentally, the founder of Rent-A-Wreck, a Los Angeles-based used-car franchising firm that chalked up gross revenues of $24 million last year and is projecting an increase to $32 million this year.

Typical Schwartztalk: "Money is not my motivating factor. I want to get up in the morning; I want to enjoy work. Bottom line: peace of mind. I'm not into greed."

More Schwartztalk: "The best business is repeats and referrals. I am into the long run, not into the short run."

And more: "I am into a quality game."

With a $1,000 loan from his mother, Schwartz started a used-car business in 1959 and named it Bundy Auto Sales (after a nearby street). Four years later, the name was changed, tongue in cheek, to Bundy Very Used Cars—to deter people who weren't serious buyers, explains Schwartz. And, he admits, "I always got off on the reverse snobbism of old cars."

Schwartz says he backed into the rental business when a woman wanted to rent rather than buy one of his cars but could not because he did not have the insurance to cover a rental. At her own suggestion, she "bought" a car for $225 and agreed to bring it back three months later. Schwartz really did not expect her to return it. But she did. "It was the best deal—I had the money and the car, too!"

So Bundy Very Used Cars became Bundy Rent-A-Car and finally Rent-A-Wreck (a friend had called it that as a joke, and the name stuck). Five years ago, Schwartz took a partner, Geoffrey M. Nathanson, and they formed Bundy American Corporation to serve as the parent company for franchise operations. Now there are more than 250 Rent-A-Wrecks in the United States, Australia, New Zealand and Europe.

Schwartz, who dresses in blue jeans and a baseball cap worn over unruly hair, is given to comment on what other business people wear ("Their monograms had monograms!"), and he frequently says, "I am not a corporate-thinking person."

So why did he choose Nathanson, who, with his conservative suits and trim haircut, would not make waves in anybody's board room? Schwartz comes back with a string of reasons:

"He was just into the excitement of it. He had had other businesses that were successful, but the satisfaction of building a business was what he was looking for. He is a man of high character. He didn't need the money. We agree on the pace at which we are going to grow—and on priorities in life. Satisfaction from work is a main part of adult life. We complement each other."

Besides, Schwartz adds, Nathanson *is* a "corporate-thinking person."

The cars, of course, are not wrecks at all. Two to six years old, they are clean and in top operating condition. And they rent for less than new cars at major rental companies. Rates vary across the country, but Schwartz says you can get a car at $16.95 a day, with 100 free miles per day, in Los Angeles.

Early on, Rent-A-Wreck gained a reputation for a celebrity clientele. Asked about that, Schwartz drops a few customers' names but is emphatic: "It's not what we are about anymore. The mailman is as important to me as Alan Alda. The schoolteacher and college professor are as important as Richard Gere. Judge John Sirica, CBS News President Van Gordon Sauter, Ali McGraw, Paul Newman ... we don't cater to them. We cater to reliable, responsible people who want an equitable deal."

Although Schwartz protests that he is noncorporate, his conversation is sprinkled with references to his insistence on quality, good service and controlled growth. He spends two weeks a month on the road, making sure the franchises are run properly, and he speaks with enthusiasm about the people who own them. Of a young man in Milwaukee, for example: "His whole thinking is integrity." Of a woman's operation in Minneapolis: "Every car is perfect. The people

PHOTO: GREG WEINGER

The name Rent-A-Wreck originated as a joke, but David Schwartz used its tongue-in-cheek appeal to turn his car rental lot into an international firm.

PHOTO ERIC MENCHER

Orlando builder Dan Knoebel relies on a "one-stop shopping" approach to sell his prefabricated homes. To implement the idea, he created a mortgage finance firm.

who work there are neat and clean and alert."

Before the firm got enough experience, Schwartz says, he and Nathanson were "looser" in their choice of franchisees. Of the first 15, they have bought back nine. "They just didn't come up to our quality," Schwartz says. "We didn't want them with our name on them."

Because of all the mistakes he made in the beginning (not understanding what control meant, not having a master plan), Schwartz says, the parent firm can help franchise owners "eliminate trial and error." He seems surprised that when he teaches them, they learn.

"It's magic," he says. "A thrill money can't buy."

Streamlined Sales For Streamlined Homes

When Daniel M. Knoebel was 9, he had already discovered the advantages of precutting and prepainting pieces for construction. "I prefabbed birdhouses and sold them door to door," he says.

Today, Knoebel, 55, has been successfully turning out factory-built homes for humans for more than 35 years. And the Orlando entrepreneur is applying his lifelong penchant for streamlining things not only to the way he builds his houses but also to the way he sells them. He is offering his customers "one-stop shopping" that includes the mortgage loan as well as the house.

To do this, the Dan Knoebel Corporation has added seven "storefront" sales centers to its five model centers—all in Florida except for an outlet near Atlanta. Knoebel (pronounced "noble") has also created a financing subsidiary, the Dan Knoebel Acceptance Corporation, headed by his son Norwood, 32. It is located in Atlanta, to be near financial institutions that can purchase its mortgages.

The decision to open the subsidiary underscores Knoebel's belief that his business depends on mortgage money. Until recently, savings and loan associations were almost the only source, and availability fluctuated, he notes. "You could get mortgage money only once or twice a year," he says. "It was like mating season."

Knoebel likens the storefront outlets to a movie set. Located in small shopping centers and consisting of a kitchen, living room, bath and part of a roof, they are "made to give you the feeling of a house but within four walls instead of outdoors," he says.

The system for selling and financing the homes is patterned after General Motors dealerships and the General Motors Acceptance Corporation, according to Knoebel. "The only difference is that we are selling a house rather than a car."

His goal is to cover the 14 Southeastern states with Knoebel dealerships. With the addition of the storefronts in 1982, he more than doubled the number of sales centers. As a result, he expects to sell 300 houses this year, compared with 150 last year, and to increase his gross revenue from $6 million to at least $12 million.

Closing on a factory-built home is easier than closing on a yet-to-be-built conventional house, which may take five or six months to construct, Knoebel observes. His firm promises delivery of a house within 60 days of closing and can therefore guarantee the interest rate. His houses generally cost 22 percent to 30 percent less than conventional houses of comparable quality, he says.

Knoebel, who says his company has weathered nine recessions, attributes its survival largely to the fact that his homes are sold before they are built. He refuses to build on speculation.

How many homes has he built in his lifetime? As many as 10,000 to 12,000, he replies. "I've lost count." □

Outwitting the Business Lunch

By Phyllis M. Barrier

THE FAMOUS "three-martini lunch" is mostly a myth, but it is true that important business is often transacted over lunch. It is also true that business lunches can contribute mightily to an expanding waistline. A restaurant meal at lunch, eaten without restraint, can give you all the calories you need for an entire day—just in that one meal.

If you want to keep making deals over lunch—without adding a pound or two for every deal you make—what is the best way to do it?

PHOTO: DAVID CHERNE

Those deals over meals won't expand your waistline if your lunch includes items like those on the left.

Let's start with those martinis, since limiting alcohol is the first step in keeping caloric intake down. One jigger of 80-proof liquor has 100 calories; a glass of dry wine (3½ ounces) or a 12-ounce "light" beer has about as many. Hard liquor is particularly fattening when mixed in drinks like whiskey sours and gin and tonics (which, despite a common impression, are heavy on sugar). It is best to stick to drinks mixed with water or club soda.

As for appetizers, the best thing to do is to skip them if a full meal is to follow. Appetizers relatively low in calories include raw or cooked vegetables (such as freshly steamed asparagus or an artichoke), seafood cocktails (but not dipped in butter) and light soups.

When you are choosing a main dish, remember that fish, poultry and veal are lower in fat and therefore lower in calories than red meats. Stick to dishes that have been baked, broiled or poached, rather than fried. Always trim off the visible fat and remove the skin.

If the entrée comes with a sauce, ask that the sauce be served on the side so you can control those extra calories. Also ask that salad dressings be served on the side. Since most salad dressings average 75 to 80 calories per tablespoon, you should use as little dressing as possible. Better still, try seasoning your salads with a small amount of oil and vinegar and your vegetables with a squeeze of fresh lemon.

Starches like potatoes, bread and rice have been vilified as the enemy of the American waistline, but carbohydrates play an important part in a well-balanced diet. Eat starches in moderation, and remember that it is what you put on them (sour cream, butter, bacon and so on) that makes them fattening. If you can't resist overindulging in breads, put the bread basket as far away from you as possible; better yet, ask the waiter to take it away, if that is agreeable with the others at your table.

Beware of the dieter's special: hamburger steak, cottage cheese and a peach half. That combination averages 450 to 500 calories, and it will leave you feeling deprived because it is just not very appealing. For the same amount of calories, you could have a much more interesting lunch: 3 ounces of broiled fish, a small baked potato with a pat of butter, a vegetable and fresh strawberries for dessert.

How about the salad bar as a calorie-saver? A colleague once joked that salads must be fattening, because he saw only fat people eating them. In a sense that can be true. Many salad bars are loaded with calories: macaroni salad and potato salad (both made with mayonnaise), three-bean salad, corn salad and other marinated vegetables (saturated with sugar and oil), bread with wedges of cheese or butter, and tossed salad with dressing at 80 calories per tablespoon. Just a dab of each of these on your plate, and your caloric intake can skyrocket.

The salad bar can be a good choice if the emphasis is put on the low-calorie vegetables: lettuce, cabbage, tomato, green pepper, cucumbers, carrots, cauliflower and so on. Then add a small amount of protein in the form of beans, eggs or cheese. Use a reduced-calorie dressing or vinegar and oil (light on the oil) or go light with a regular dressing.

Now to the pitfall in many a business lunch—dessert. The best choice is always fresh fruit (without whipped cream). If you lose all willpower when the dessert cart is brought to your table, try to get someone to share the cheesecake with you, to reduce the calories by half.

There is another drawback to the business lunch. If you take a couple of hours for lunch one day to meet with a customer or client, you may be so rushed the next day that you can spare only 15 or 20 minutes for lunch.

If your schedule is tight and you are going to eat at a fast-food restaurant, your best choices, for nutrition and calories, are roast beef sandwiches and plain hamburgers (not double burgers, quarter-pounders or burgers with bacon or other toppings). A small serving of cole slaw at around 60 calories is definitely preferable to a small order of French fries at more than 300.

IF YOU ARE CAUGHT at your desk with no time to go out for lunch, send out for a sandwich that will not break your calorie bank, plus a small salad and a piece of fruit. If you are deskbound regularly at lunchtime, you may want to bring in individual cans of fruit juice or vegetable juice, cheese and crackers, and fruit.

Don't forget that you can do more at lunchtime than eat—you can exercise. You might consider going to a gym, spa or health club for a workout. But the easiest and least expensive way to exercise is to walk for 30 minutes at a brisk pace; if done three or four times a week, such exercise can—in the opinion of many experts—be as healthful as more vigorous activities.

Even if your schedule makes it difficult for you to turn your lunch hour into a health hour of this kind, there is still one thing you can do: After a business lunch, instead of driving or taking a cab to the office, walk back. □

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CONGRESSIONAL ALERT

Issues That Could Affect *Your* Business

. . . and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
FY 1984 Budget/Taxes	Budget resolution passed by Congress recommends higher taxes, higher rates of domestic spending; both could harm recovery.	Members of the House and Senate: Oppose enacting any major tax increase package this year; support cuts in unwarranted federal programs.
Natural Gas Deregulation	Restrictions in current law on gas use and price are unfair to business consumers, and complete decontrol would lead to equitable prices and adequate supplies.	Senators, House Energy and Commerce Committee: Support total deregulation of supplies and prices by a specific date.
Appropriation Bills	Government spending totals and fiscal year 1984 deficit, which will be determined by passage of the 13 individual appropriation bills, could be inflationary if too high.	Members of the House and Senate: Inflated appropriation bills require additional government borrowing and lead to higher deficits; sustain President's vetoes if they occur.
Hazardous Wastes	Legislation could greatly increase paper work burden and raise production costs, but environment would realize few benefits.	Members of the House and Senate: Support informational programs to raise small business awareness of environmental laws; require study of waste management classifications.
Clean Water Act	Existing pretreatment provisions of the law have proved impossible for local authorities to implement, and failure to correct problem would mean delayed compliance, increased costs and confusion for business.	Senate Environment and Public Works Committee and House Public Works and Transportation Committee: Let municipalities develop pretreatment programs tailored to local needs.
Export Administration Act	Preserving contract sanctity and reducing controls on trade with Free World countries would promote U.S. reputation as reliable trading partner, cut balance of payments deficit, provide thousands of new domestic jobs.	Members of the House and Senate: Reduce unintended costs to U.S. economy caused by excessive use of foreign policy export controls and burdensome requirements on trade with Free World countries.
Immigration	Extensive new paper work requirements would be especially burdensome to small business.	Members of the House: Critically important that the voluntary paper work provisions be retained in the bill.

That Veto Decision: Incentive for Reform

The Supreme Court decision invalidating the legislative veto (see story, page 44) should be kept in perspective.

Although business long supported such vetoes as a key element of regulatory reform, their abolition by the Court does not by any means represent a setback to the reform cause.

The legislative veto, by which Congress could override executive branch actions, was never viewed by business as a permanent solution to regulatory agencies' excesses.

But it appeared, particularly in the antibusiness climate of the late 1970s, that the veto procedure was one of the few regulatory reform goals that might be achieved. Prospects for bringing about fundamental change in the philosophy governing the federal presence in the marketplace were considered slim to nonexistent, given the attitudes of the Carter administration and Congress.

As long as the legislators held power to invoke the legislative veto, they could claim that they held the regulators in check. But even that thin reed has now been taken from Congress. Members must face head-on the problems caused by overzealous bureaucrats neither elected by, nor answerable to, the people.

Congress should view the Supreme Court decision not as a blow to legislative authority but as an opportunity and incentive for basic reform in government regulation.

The Pentagon Should Heed This Group

The Pentagon owes it to the nation's taxpayers to give serious consideration to military spending economies recommended by a blue-ribbon panel on federal spending.

The President's Private Sector Survey on Cost Control has identified ways the Defense Department can improve its balance sheet by $104 billion over three years.

J. Peter Grace, chairman of W.R. Grace & Company, is chairman of the overall panel of 161 private sector leaders. Top executives of major corporations comprised the task forces on defense.

Those individuals are concerned about national security and hold no antimilitary bias.

Their recommendations included more efficient programs for acquiring new weapons systems, formation of an independent panel to deal with the politically sensitive issue of base closings and major revisions in military retirement and health care.

The administration and policymakers in the Defense Department should welcome this type of advice. If military planners do not heed the warnings of highly supportive business executives, they might be helping to create a political climate in which they could one day find themselves forced to accept spending cuts that really do jeopardize the nation's security.

Those Tax Increases Are Not Locked In

You can lead members of Congress to a tax-increase bill, but you can't make them vote for it. And you can pile tax-increase bills high on a President's desk, but you can't make him sign them.

Those legislative and political realities have been obscured in the present congressional debate over fiscal policy.

It's true that a majority of members of both houses of Congress approved a budget resolution calling for $73 billion in taxes over the next three years. But that resolution gave no specifics, leaving it to the tax-writing committees to recommend exact revenue sources.

Some members of the tax-increase majorities will undoubtedly reconsider when confronted with identified increases. And it is highly unlikely that Congress could override the President's promised veto of any tax-increase bills.

Those obstacles to higher taxes are additional reasons why the legislators should seek spending cuts to achieve budget discipline. □


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